



**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Amendment No. 1**  
**to**  
**Form F-1**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

**ATA Inc.**

*(Exact name of Registrant as Specified in its Charter)*

**Cayman Islands**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

**8200**  
*(Primary Standard Industrial  
Classification Code Number)*

**Not Applicable**  
*(I.R.S. Employer  
Identification Number)*

**8th Floor, Tower E**  
**6 Gongyuan West Street,**  
**Jian Guo Men Nei**  
**Beijing 100005, China**  
**Telephone: 86-10-6518-1122**

*(Address and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)*

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered <sup>(1)(2)</sup>	Amount to be Registered <sup>(2)(3)</sup>	Proposed Maximum Offering Price per Unit <sup>(3)</sup>	Proposed Maximum Aggregate Offering Price <sup>(3)</sup>	Amount of Registration Fee
Common shares, par value \$0.01 per share	11,210,226	\$5.75	\$64,458,800	\$2,533 <sup>(4)</sup>

(1) American depositary shares, or ADSs, evidenced by American depositary receipts issuable upon deposit of the common shares registered hereby will be registered under a separate registration statement on Form F-6. Each ADS represents two common shares.

(2) Includes (a) common shares represented by ADSs that may be purchased by the underwriters pursuant to their overallotment option and (b) all common shares represented by ADSs initially offered and sold outside the United States that may be resold from time to time in the United States either as part of the distribution or within 40 days after the later of the effective date of this registration statement and the date the securities are first bona fide offered to the public.

(3) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended.

(4) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**Subject to Completion,  
Preliminary Prospectus dated January 16, 2008**

**PROSPECTUS**

**4,874,012 American Depositary Shares**

**ATA**  
**ATA Inc.**

**Representing 9,748,024 Common Shares**

This is ATA Inc.'s initial public offering. ATA Inc., or ATA, is offering 4,874,012 American depositary shares, or ADSs. Each ADS represents two common shares.

We expect the public offering price to be between \$9.50 and \$11.50 per ADS. Currently, no public market exists for the ADSs or the common shares. We have applied to have our ADSs listed on the Nasdaq Global Market under the symbol "ATAI."

**Investing in the ADSs involves risks that are described in the "Risk Factors" section beginning on page 9 of this prospectus.**

	<u>Per ADS</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to ATA	\$	\$

The underwriters may also purchase up to an additional 731,101 ADSs from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The ADSs are expected to be delivered against payment on or about \_\_\_\_\_, 2008.

**Merrill Lynch & Co.**

**Piper Jaffray**

**Susquehanna Financial Group, LLLP**

The date of this prospectus is \_\_\_\_\_, 2008

# Testing Services Educational Programs Test Preparation



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You should rely only on the information contained in this prospectus. Neither we nor the underwriters have authorized anyone to provide you with information that is different from that contained in this prospectus. This prospectus may only be used where it is legal to offer and sell these securities. The information in this prospectus is only accurate as of the date of this prospectus.

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Through and including \_\_\_\_\_, 2008 (the 25<sup>th</sup> day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

### Conventions That Apply to This Prospectus

Unless we indicate otherwise, information is presented in this prospectus assuming that:

- the underwriters will not exercise their option to purchase additional ADSs to cover overallocments; and
- all of our outstanding preferred shares will be converted into common shares immediately prior to the completion of this offering.

In this prospectus,

- all references to years are to the calendar year from January 1 to December 31 unless specifically stated otherwise, and references to our fiscal year or years are to the fiscal year or years ended March 31;
- “we,” “us,” “our company,” “our” and “ATA” refer to ATA Inc., and its subsidiaries and affiliated PRC entity as the context requires;
- “China,” “Chinese” and “PRC” refer to the People’s Republic of China, excluding for purposes of this prospectus Taiwan, Hong Kong and Macau;
- “RMB” and “Renminbi” refer to the legal currency of China, and “U.S. dollars,” “dollars,” and “\$” refer to the legal currency of the United States; and
- “U.S. GAAP” refers to generally accepted accounting principles in the United States.

This prospectus contains translations of Renminbi amounts into U.S. dollars at specified rates. Unless otherwise noted, all translations from Renminbi to U.S. dollar amounts were made at the noon buying rate in the City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York, as of September 28, 2007, which was RMB7.4928 to \$1.00. We make no representation that the Renminbi or U.S. dollar amounts referred to in this prospectus 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. The Chinese government restricts or prohibits the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions. On January 15, 2008, the noon buying rate was RMB7.2345 to \$1.00.

This prospectus contains information and statistics relating to China’s economy and the industries in which we operate derived from various publications issued by Chinese governmental entities and other third parties which have not been independently verified by us, the underwriters or any of their respective affiliates or advisers. The information in such third-party sources may not be consistent with other information compiled in or outside China.

We commissioned International Data Corporation, or IDC, a leading provider of global IT research and advice, to prepare a report for the purpose of providing various industry and other information and illustrating our position in the computer-based testing services market in China. Information from this report appears in Industry, Business and other sections of this prospectus. We have taken such care as we consider reasonable in the reproduction and extraction of information from the IDC report and other third-party sources.



## SUMMARY

*This summary highlights selected information contained in greater detail elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our ADSs. You should carefully read the entire prospectus, including the "Risk Factors" section and our consolidated financial statements and the accompanying notes, before making an investment decision.*

### ATA Inc.

#### Our Business

We are the leading provider of computer-based testing services in China, with the largest market share, 30.9%, in terms of revenue in 2006, according to IDC. We also provide career-oriented, test-based educational programs and test preparation solutions in China. To comply with PRC law, we operate the online portion of our test preparation solutions business through a series of contractual arrangements with ATA Online (Beijing) Education Technology Limited, or ATA Online, a PRC entity owned by two of our founders and over which we do not have direct control or direct oversight. Our clients include professional associations, such as the China Banking Association and the Securities Association of China, which accounted for 19.5% and 4.2%, respectively, of our net revenues for the six months ended September 30, 2007, Chinese governmental agencies, including the PRC Ministry of Labor, which accounted for 8.5% of our net revenues for the same period, well-known IT vendors, Chinese educational institutions, distributors of our test preparation software products, and individual test preparation services consumers. During the six months ended September 30, 2007, approximately two million tests were delivered using our computer-based testing technologies and services.

We began providing computer-based testing services in 1999. We offer comprehensive services for the creation and delivery of computer-based tests based on our proprietary testing technologies and test delivery platform. Our computer-based testing services are used for professional licensure and certification tests in various industries, including information technology, or IT, services, banking, teaching, securities, insurance and accounting. Our test center network comprised 1,810 authorized test centers located throughout China as of September 30, 2007, which we believe is the largest test center network of any commercial testing service provider in China based on client feedback and our market experience. Combined with our test delivery technologies, this network allows our clients to administer large-scale nationwide tests in a consistent, secure and cost-effective manner. We have delivered over 23 million tests since 1999, and in July 2007 delivered tests to more than 200,000 test takers in a single day for the China Banking Association, through our test delivery platform.

Leveraging our testing expertise, we have expanded into providing career-oriented educational services and test preparation solutions. In 2002, we began offering career-oriented course programs, which we market to Chinese educational institutions. We develop our course programs by integrating our testing technologies and services with IT learning content authorized by major IT vendors such as Microsoft China, Borland and Adobe. In March 2006, we began offering pre-occupational training programs, which allow students to obtain practical skills for specific job requirements. By integrating our testing technologies with test preparation content, we began offering targeted test preparation solutions for certain professional licensure and certification tests in the securities, insurance and teaching industries in 2006. ATA Online has launched online test preparation Internet web sites in coordination with the Securities Association of China and the China Banking Association to help candidates across China prepare for these organizations' professional licensure and certification tests, which are delivered through our test delivery platform. We also offer our NTET Tutorial Platform software for training teachers for certification under the National Teachers' Skill Test of Applied Educational Technology in Secondary and Elementary School, or NTET test, which is delivered nationwide through our test delivery platform.

Our proprietary technologies and know-how for the creation and delivery of computer-based tests are important to our service capabilities. Our E-testing platform is composed of a set of self-developed tools and applications for facilitating the computer-based testing process, and is capable of handling



large-scale tests and quickly and securely transmitting, processing and storing large amounts of data. We have also developed proprietary technologies for the creation and operation of advanced performance-based tests, such as our self-developed Dynamic Simulation Technology, which leading IT certification sponsors, such as Microsoft, have adopted for their computer-simulated tests given around the world. We have also developed content creation technologies for the conversion of paper-based tests into computer-based formats.

Our total net revenues have increased from RMB69.0 million for the fiscal year ended March 31, 2006 to RMB84.9 million (\$11.3 million) for the fiscal year ended March 31, 2007 and from RMB32.4 million for the six months ended September 30, 2006 to RMB76.2 million (\$10.2 million) for the six months ended September 30, 2007. We had net losses of RMB24.8 million and RMB16.8 million for the fiscal years ended March 31, 2006 and 2007, respectively, and net income of RMB8.5 million (\$1.1 million) for the six months ended September 30, 2007.

### **China's Testing and Education Markets**

China has one of the fastest growing economies in the world. As China's economy continues to develop, its service industries are playing an increasingly important role. We believe this will increase opportunities in the testing and education markets as people continue to seek advanced skills and professional licenses and certifications.

China has one of the world's largest testing markets in terms of test takers, with 122.7 million test candidates in 2006, according to IDC. Testing has played a prominent role in Chinese society for centuries, and this long tradition of testing extends to professional associations and businesses in China that rely on tests to issue professional licenses and certifications, assess ongoing professional skills and select job candidates. As China's economy has modernized and become more dependent on technology, a growing number of test sponsors have adopted computer-based tests in place of traditional paper-based tests. Computer-based tests offer key advantages over traditional paper-based tests, including easier administration, reduced scoring errors, greater data security and quicker results analysis. Test sponsors are increasingly outsourcing the design and delivery of computer-based tests to third-party service providers.

China's education market is experiencing rapid growth in terms of both the number of schools and the number of students, especially at the post-secondary higher education level. However, a growing number of students who are unable to reach China's universities are seeking alternative means to obtain the skills necessary to succeed in the job market. Moreover, as Internet usage becomes increasingly common, people are turning to online resources as a means of furthering their education and to prepare for various types of tests. Online education and test preparation provide students the flexibility to take interactive courses at times and in locations most convenient to them. Online education and test preparation are particularly attractive to working adults, and their employers, as they seek to combine work with the pursuit of higher level licenses and certifications.

### **Our Strengths, Strategies and Risks**

We believe the following competitive strengths have been instrumental in achieving our current market position and provide the basis for our continued growth:

- our early mover advantage and leadership position in the computer-based testing services industry in China;
- our experience in delivering sophisticated and large-scale computer-based tests;
- our large test center network and scalable test delivery platform;
- the flexibility and customizability of our testing services;
- our performance-based testing and test security technologies;

- our established relationships with key test sponsors and leading IT vendors; and
- our experienced management team.

Our mission is to extend our position as the leading provider of computer-based testing services in China, and expand our career-oriented, test-based educational programs and test preparation solutions businesses in China, by pursuing the following strategies:

- continue to seek opportunities in licensure and certification testing services;
- further enhance our technology and expand our test center network reach;
- leverage our testing service strengths to expand our test preparation and educational program offerings;
- increase recognition of our “ATA” brand; and
- pursue selective strategic acquisitions and alliances, if and when attractive opportunities arise.

The successful execution of our strategies is subject to risks and uncertainties, including:

- our ability to maintain profitability, as we only achieved profitability recently and had previously been loss-making since our inception, in addition to having an accumulated deficit of RMB135.1 million and RMB126.6 million (\$16.9 million) as of March 31, 2007 and September 30, 2007, respectively;
- our ability to meet challenges associated with our rapid expansion, including our expansion into the test preparation market;
- market acceptance of our technologies, products and services;
- our ability to maintain relationships with key governmental agencies, test sponsors, educational institutions and IT vendors; and
- governmental policies, including policies regarding funding for governmental agencies that sponsor tests, policies promoting vocational education, tuition policies and policies relating to foreign investment in Internet content distribution.

See “Risk Factors” for a discussion of these and other risks and uncertainties associated with our business and investing in our ADSs.

### **Corporate Structure**

Our predecessor company, American Testing Authority, Inc., a New York company, began operations in 1999, and in that same year established ATA Testing Authority (Beijing) Limited, or ATA Testing, as a wholly owned subsidiary in China. In November 2001, our founders established ATA Testing Authority (Holdings) Limited, or ATA BVI, in the British Virgin Islands. The following year American Testing Authority, Inc. merged into ATA BVI and ATA BVI became our holding company. In June 2003, we established a Chinese joint venture company, ATA Learning (Beijing) Inc., or ATA Learning, with Yinchuan Economic and Technological Development Zone Investment Holding Co. Ltd., or Yinchuan Holding. In May 2005, we exercised our call option to acquire the remaining interest from Yinchuan Holding and converted ATA Learning into a wholly owned subsidiary of ATA BVI.

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

Due to PRC regulatory restrictions on foreign ownership of Internet content businesses in China, we operate the online portion of our test preparation solutions business through a series of contractual arrangements entered into among us, ATA Learning and ATA Online, a PRC entity owned by two of our

founders. We do not have any direct ownership interest or direct shareholding rights in ATA Online and as a result do not have direct control or direct oversight over ATA Online. For a description of these contractual arrangements, see “Our Corporate Structure” and “Related Party Transactions.” If the Chinese government determines that the contractual arrangement structure through which we operate our online test preparation business does not comply with Chinese laws and regulations, we could be subject to penalties and may not be able to continue that business. Moreover, any conflicts between us and the shareholders of ATA Online, or any failure by ATA Online or its shareholders to perform their obligations under our contractual arrangements with them, may materially and adversely affect our online test preparation business and financial condition. For a detailed discussion of the various risks and uncertainties related to these contractual arrangements and the structure we use to operate our online test preparation business, see “Risk Factors — Risks Relating to Regulation of Our Business.”

### Recent Developments

The following is an estimate of certain unaudited selected consolidated financial data for the three months ended December 31, 2007. Because our financial statements for the three months ended December 31, 2007 have not been finalized and are subject to completion of our normal quarter-end closing procedures, the unaudited selected consolidated financial data for the three months ended December 31, 2007 set forth below may be subject to change.

We estimate:

- total net revenues were between RMB63.0 million (\$8.4 million) and RMB67.5 million (\$9.0 million), compared to RMB36.3 million for the three months ended December 31, 2006;
- gross profit was between RMB42.8 million (\$5.7 million) and RMB46.0 million (\$6.1 million), compared to RMB25.9 million for the three months ended December 31, 2006;
- income from operations was between RMB14.8 million (\$2.0 million) and RMB16.0 million (\$2.1 million), compared to RMB6.6 million for the three months ended December 31, 2006; and
- net income was between RMB10.6 million (\$1.4 million) and RMB12.0 million (\$1.6 million), compared to RMB6.9 million for the three months ended December 31, 2006.

Our preliminary consolidated financial data for the quarter ended December 31, 2007 are subject to adjustment based upon, among other things, completion of our reporting processes. Actual results could differ materially from the estimates provided above. For additional information regarding the various risks and uncertainties inherent in such estimates, see “Special Note Regarding Forward-Looking Statements.” Financial results for the three months ended December 31, 2007 may not be indicative of our full year results for the fiscal year ending March 31, 2008 or future quarterly periods. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for information regarding trends and other factors that may influence our financial results.

Our quarterly results of operations are subject to seasonal fluctuations. In particular, net revenues from testing services and test preparation solutions are typically lowest in the quarter ending March 31. As a result, we expect our total net revenues, gross profit, income from operations and net income to be significantly lower during the three months ending March 31, 2008 than they were for the three months ended December 31, 2007, which we estimate will result in a net loss from operations and a net loss for the three months ending March 31, 2008. In addition, we may also incur a net loss from operations and a net loss for the three months ending June 30, 2008 depending on whether certain large-scale tests, such as the banking licensure test, are scheduled in the quarter ending September 30, 2008 instead of the prior quarter. For more information, see the section entitled “Recent Developments.”

## Our Offices

Our principal executive offices are located at 8th Floor, Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, the People's Republic of China. Our telephone number at this address is 86-10-6518-1122, and our fax number is 86-10-6517-9517. Our web site is [www.ata.net.cn](http://www.ata.net.cn). The information contained on our web site is not part of this prospectus.

Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, 13th Floor, New York, New York 10011.

## The Offering

ADSs offered by us:	4,874,012 ADSs.
The ADSs	<p>Each ADS represents two common shares, par value \$0.01 per share. The ADSs will be evidenced by American depositary receipts, or ADRs.</p> <ul style="list-style-type: none"><li>• A nominee of the depositary will be the registered holder of the common shares underlying your ADSs, and you will have rights of an ADR holder as provided in the deposit agreement among us, the depositary and the holders and beneficial owners of ADSs from time to time.</li><li>• Although we do not expect to pay cash dividends in the foreseeable future, in the event we declare dividends on our common shares, the depositary will pay you the cash dividends and other distributions it receives on our common shares, after deducting its fees and expenses, and subject to any tax withholding requirements and whether the depositary can convert the currency on a reasonable basis into U.S. dollars and transfer the U.S. dollars to the United States.</li><li>• You may surrender your ADSs to the depositary for cancellation in exchange for common shares underlying your ADSs. The depositary will charge you fees for such cancellations.</li><li>• Under certain circumstances, we may amend or terminate the deposit agreement for any reason without your consent, and if you continue to hold our ADSs, you agree to be bound by the deposit agreement as amended.</li></ul> <p>You should carefully read the section in this prospectus entitled "Description of American Depositary Shares" to better understand the terms of the ADSs. You should also read the deposit agreement, which is an exhibit to the registration statement that includes this prospectus.</p>
ADSs outstanding immediately after the offering	4,874,012 ADSs.
Common shares outstanding immediately after this offering	43,378,710 common shares.
Option to purchase additional ADSs	We have granted to the underwriters an option, exercisable within 30 days from the date of this prospectus, to purchase up

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	<p>to an aggregate of 731,101 additional ADSs at the initial public offering price, less underwriting discounts, solely to cover overallocments of ADSs, if any.</p>
Depository	Citibank, N.A.
Timing and settlement for ADSs	The ADSs are expected to be delivered against payment on or around _____, 2008. The ADRs evidencing the ADSs purchased in this offering will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York. In general, beneficial interests in the ADSs will be shown on, and transfers of these beneficial interests will be effected only through, records maintained by DTC and its direct and indirect participants.
Use of proceeds	Our net proceeds from this offering are expected to be approximately \$43.8 million (assuming an initial public offering price of \$10.50 per ADS, the mid-point of the estimated range of the initial public offering price shown on the front cover of this prospectus, and after deducting estimated underwriting discounts and estimated offering expenses payable by us). If the underwriters exercise their overallocation option in full, we estimate that our net proceeds will be approximately \$50.9 million. We anticipate using a portion of these net proceeds to develop and expand our test preparation solutions business, to license course content from IT vendors to expand our degree major and single course program offerings, for marketing costs related to enhancing our "ATA" brand, to fund working capital and for other general corporate purposes, including incremental costs associated with being a public company, and for acquisitions of complementary assets, technologies and businesses. See "Use of Proceeds."
Lock-up agreements	We and our executive officers, directors and shareholders have agreed, with exceptions, not to sell or transfer any of our common shares or ADSs for 180 days after the date of this prospectus. See "Shares Eligible for Future Sale" and "Underwriting."
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our ADSs.
Listing	We have applied to have our ADSs listed on the Nasdaq Global Market. Our common shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system.
Nasdaq Global Market symbol	We have applied to have our ADSs listed on the Nasdaq Global Market under the symbol "ATAI."

**SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA**

You should read the following information with our consolidated financial statements and related notes, “Selected Consolidated Financial and Operating Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus. Our consolidated financial statements are prepared in accordance with U.S. GAAP.

The following summary consolidated statements of operations data for the fiscal years ended March 31, 2006 and 2007 (other than pro forma (loss) earnings per common share and ADS data), and the summary consolidated balance sheets data as of March 31, 2006 and 2007, are derived from our audited consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes.

The summary consolidated statements of operations data for the six months ended September 30, 2006 and 2007 and the summary consolidated balance sheets data as of September 30, 2007 are derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. We have prepared our unaudited condensed consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited financial information includes all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the periods presented. The unaudited results for the six months ended September 30, 2007 may not be indicative of our results for the full year ending March 31, 2008.

	For the Year Ended		For the Six Months Ended September 30,		
	March 31,		2006	2007	2007
	RMB	RMB	RMB	RMB	\$
(In thousands, except for per share and per ADS data)					
<b>Consolidated Statements of Operations Data:</b>					
Total net revenues	69,037	84,881	32,368	76,248	10,176
Gross profit	35,049	43,779	13,618	43,471	5,802
(Loss) income from operations <sup>(1)</sup>	(1,091)	(19,596)	(13,559)	8,736	1,166
Interest expense	(22,713)	—	—	—	—
Net (loss) income <sup>(2)</sup>	(24,809)	(16,790)	(11,857)	8,530	1,138
Accretion of Series A redeemable convertible preferred shares to redemption value	(13,889)	—	—	—	—
Foreign currency exchange translation adjustment on Series A redeemable convertible preferred shares	3,269	—	—	—	—
Net (loss) income (applicable) available to common shareholders	(35,429)	(16,790)	(11,857)	8,530	1,138
Basic (loss) earnings per common share	(2.16)	(0.82)	(0.61)	0.39	0.05
Diluted (loss) earnings per common share	(2.16)	(0.82)	(0.61)	0.23	0.03
Pro forma basic (loss) earnings per common share <sup>(3)</sup>		(0.52)		0.25	0.03
Pro forma diluted (loss) earnings per common share <sup>(3)</sup>		(0.52)		0.23	0.03
Basic (loss) earnings per ADS <sup>(4)</sup>	(4.32)	(1.64)	(1.22)	0.78	0.10
Diluted (loss) earnings per ADS <sup>(4)</sup>	(4.32)	(1.64)	(1.22)	0.46	0.06
Pro forma basic (loss) earnings per ADS <sup>(3)</sup> <sup>(4)</sup>		(1.04)		0.50	0.06
Pro forma diluted (loss) earnings per ADS <sup>(3)</sup> <sup>(4)</sup>		(1.04)		0.46	0.06

<sup>(1)</sup> Includes non-cash share-based compensation expenses of RMB4.2 million, RMB2.5 million, RMB1.2 million and RMB1.1 million (\$0.1 million) for the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2006 and 2007, respectively.

<sup>(2)</sup> Our PRC subsidiaries, ATA Testing and ATA Learning, enjoy tax holidays provided by local and national PRC tax authorities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Taxation.” If our PRC

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subsidiaries had not enjoyed these tax holidays, they would have had a preferential enterprise income tax rate of 15%. The following table shows the effects of the tax holidays for the periods indicated:

	For the Year Ended March 31,		For the Six Months Ended September 30,		
	2006	2007	2006	2007	2007
	RMB	RMB	RMB	RMB	\$
	(In thousands, except for per share data)				
Effect on net (loss) income (applicable) available to common shareholders	(544)	155	183	231	31
Effect on basic (loss) earnings per common share	(0.033)	0.008	0.009	0.011	0.001
Effect on diluted (loss) earnings per common share	(0.033)	0.008	0.009	0.006	0.001

(3) Gives effect to the full conversion of preferred shares into 11,730,554 of our common shares, as if the conversion had taken place on April 1, 2006.

(4) Each ADS represents two common shares.

	As of March 31,		As of September 30,	
	2006	2007	2007	2007
	RMB	RMB	RMB	\$
	(In thousands)			

### Consolidated Balance Sheets Data:

	2006	2007	2007	2007
	RMB	RMB	RMB	\$
Cash	44,624	45,019	52,567	7,016
Total current assets	67,989	76,656	97,744	13,045
Total assets	88,384	108,165	131,034	17,488
Total current liabilities	53,937	45,620	59,257	7,909
Total liabilities	62,492	53,517	66,804	8,916
Accumulated deficit	(118,292)	(135,082)	(126,552)	(16,890)
Total shareholders' equity	25,892	54,648	64,230	8,572

	For the Year Ended March 31,		For the Six Months Ended September 30,	
	2006	2007	2006	2007
	RMB	RMB	RMB	RMB

### Other Key Operating Data:

Testing services:

Number of tests delivered <sup>(1)</sup>	2,583,712	3,335,701	2,004,640	2,065,249
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Test-based educational services:

Number of degree major course programs offered	36	74	74	74
Number of schools offering degree major course programs	117	137	128	135
Degree major student-months <sup>(2)</sup>	401,415	465,856	215,650	198,178
Number of single course programs offered	58	73	58	49
Number of schools offering single course programs	129	132	119	118
Single course student-months <sup>(3)</sup>	107,891	133,562	68,740	101,603

Test preparation solutions:

Number of copies of NTET software sold	—	11,022	—	19,514
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(1) Includes tests delivered through our test delivery platform and tests using our Dynamic Simulation Technology.

(2) Degree major student-months are calculated by (i) multiplying the number of students in each degree major by the number of months of that degree major course program in the relevant period and then (ii) aggregating the number of student-months for all of our degree major course programs during the period.

(3) Single course student-months are calculated by (i) multiplying the number of students in each single course program by the number of months of that single course program in the relevant period and then (ii) aggregating the number of student-months for all of our single course programs during the period.



## RISK FACTORS

*An investment in our ADSs involves significant risks. You should carefully consider all of the information in this prospectus, including the risk factors described below, before making an investment in our ADSs. The following risk factors describe events, uncertainties or circumstances that create or enhance risks to our business, financial condition and results of operations or otherwise to the value of your investment in our ADSs. Any of these risks could result in a decline in the market price of our ADSs, in which case you may lose all or part of your investment.*

### Risks Relating to Our Business

***We have only recently achieved profitability, and we may not be able to maintain or increase profitability in the future.***

Although we were profitable for the six months ended September 30, 2007, we have not yet been profitable for any full fiscal year up to and including the fiscal year ended March 31, 2007. It has taken us many years to develop a revenue base strong enough to realize profitability. Although we have experienced significant growth in our revenues in recent years, we may face difficulties maintaining or increasing profitability as we seek to continue to expand our client base, sell more of our products and services to our existing clients and develop new products and services. In addition, we expect our profitability for the fiscal year ending March 31, 2008 and future fiscal years to be negatively affected by a share-based compensation charge in relation to our issuance of options to certain employees in October 2007. We expect to incur compensation expenses of RMB18.5 million (\$2.5 million) over the vesting schedule of the options. Twenty-five percent (25%) of the October 2007 options granted vested on January 1, 2008, while the remaining seventy-five (75%) vest ratably at the end of each month over the following 30-month period. Failure to maintain or increase our profitability could result in a decline in the market price of our ADSs, in which case you may lose all or part of your investment in our ADSs.

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

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

Furthermore, we anticipate expanding the scope of our operations significantly in the coming years. Our future success will depend in part upon the ability of our senior management to manage this growth effectively. In particular, our management may face the following challenges managing this growth:

- controlling our costs and expenses and maintaining or increasing our margins and profitability;
- retaining existing clients and expanding service offerings to those clients;
- acquiring and retaining new clients, especially for our test preparation business;
- retaining our key relationships with governmental agencies, obtaining any governmental approvals required for new service offerings and responding to changes in the regulatory and policy environment;
- attracting, training and retaining qualified personnel;
- improving our operating, administrative and financial systems and internal controls and maintaining close cooperation between members of management and heads of individual departments;

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- increasing the awareness of our brand name and protecting our reputation;
- keeping up with evolving industry standards, technologies and market developments; or
- integrating any acquired business into our business operations and realizing the potential benefits of our acquisition.

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

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

Our results of operations have varied in the past from period to period, and are likely to vary in the future, due to the fact that our main sources of revenues, licensing fees from test sponsors and licensing fees from educational institutions, are seasonal. We have experienced seasonality and expect in the future to continue to experience seasonality in net revenues and accounts receivable related to our test delivery services, with the quarter ending December 31 typically having the highest net revenues from testing services and the quarter ending March 31 typically having the lowest net revenues from testing services. Under our contracts with test sponsors, we typically have the right to receive payment approximately one month after a test is delivered, and our clients typically pay us within three to six months of delivery. We therefore may experience substantial increases in our accounts receivable balance at the end of the quarter ending December 31 of each year. Also, revenues from our degree major and single course programs may experience seasonal declines during the quarter ending September 30 of each fiscal year, which includes the summer holiday months of July and August, since we do not recognize revenues in July and August for the last year of each degree major course program and for most single course programs. We also expect some seasonality in our accounts receivable related to degree major programs, because we collect from our clients typically around the months of October to November, and a large portion of our clients settle payment with us two to three months after that time.

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

If our revenues for a particular quarter are lower than we expect, we may be unable to reduce our operating expenses for that quarter by a corresponding amount, which could negatively affect our operating

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results for that quarter. As a result, you should not rely on our quarter-to-quarter comparisons of our operating results as indicators of likely future performance. Our operating results may be below the expectations of public market analysts and investors in one or more future quarters. If that occurs, the market price of our ADSs could decline and you could lose part or all of your investment. Fluctuations of our quarterly financial results may also lead to increased volatility in the market price of our ADSs.

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

As the Chinese market for computer-based testing services and career-oriented educational services is still emerging, our success will depend to a large extent on our ability to convince our clients that our technologies and services are valuable and that it is more cost-effective for them to utilize our services than for them to develop similar services in-house. We must address the following concerns with our clients as they decide to implement computer-based testing and career-oriented educational services and to use our technologies and services:

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

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

If demand for computer-based testing services or career-oriented educational services does not grow to the extent we anticipate, our revenue growth may slow or we may experience a decrease in revenues.

***If we are not successful in achieving market acceptance for our test preparation solutions, our revenues may grow more slowly or decline.***

In order to increase our revenue sources, we have allocated, and intend to continue to allocate, time, effort and capital to expand our test preparation solutions offerings. For example, our NTET Tutorial Platform accounted for 11.7% and 26.3% of our net revenues in the fiscal year ended March 31, 2007 and the six months ended September 30, 2007, respectively, and we expect revenues from this and our other test preparation solutions to grow further. However, the market for these offerings is still relatively new for us and we cannot assure you that we will succeed in adapting to client needs in this market or effectively deal with risks associated with this expansion. It may be difficult for us to accurately predict demand for our test preparation solutions, the potential size of the market or the sustainability of fees for our test preparation solutions. Furthermore, as this market develops, the Chinese government may enact unforeseen regulations and policies that could limit our ability to provide or expand our test preparation solutions,

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such as prohibitions on foreign-invested entities engaging in test preparation services. Additional risks which we face expanding in this market include the following:

- we may underestimate the amount of capital, personnel and other resources required to carry out our expansion plans, which may affect the success of our expansion and/or negatively impact the quality of our other product and service offerings;
- if we are unsuccessful in this market, it may negatively affect our reputation and the status of our brand in our other markets;
- we face additional regulatory risks in relation to the ATA Online's online test preparation business due to restrictions imposed by the Chinese government on Internet content services. See "— Risks Relating to Regulation of Our Business — Substantial uncertainties and restrictions exist with respect to the application and implementation of Chinese laws and regulations relating to Internet content distribution. If the Chinese government finds that the structure for our online test preparation services and other services we provide through the Internet do not comply with Chinese laws and regulations, we could be subject to penalties and may not be able to continue those businesses;" and
- we may fail to develop sufficient payment collection, technical support and other administrative capabilities necessary to successfully develop and manage our test preparation solutions on an increasingly large scale.

The success of our test preparation solutions also depends on our ability to gain and maintain licenses from test sponsors for learning materials. Obtaining and maintaining these licenses from test sponsors for which we also provide testing content creation or delivery services will require us to convince them that our test preparation solutions will not compromise the integrity of the tests that we deliver for them.

A failure to achieve market acceptance for our test preparation solutions may have an adverse impact on our revenues and results of operations.

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

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

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

The success of our business going forward will rely in large part on our ability to continue to obtain business from our existing clients and maintain our relationships with key Chinese governmental agencies. For the fiscal year ended March 31, 2007 and the six months ended September 30, 2007, 46.9% and 20.6%, respectively, of our total net revenues were generated from licensing and service fees from Chinese governmental agencies and educational institutions controlled by the PRC government. Our

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contracts for computer-based testing services generally allow for termination without cause on three months to one year's written notice. Furthermore, educational institutions offering our career-oriented educational programs are under no contractual obligation to enroll students in our programs. We must therefore market our technologies and services to new and existing clients not only to expand our operations, but also to maintain our existing client base and revenues.

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

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

Our largest client in the six months ended September 30, 2007, the China Banking Association, accounted for 19.5% of our net revenues for that period. In addition, Chengdu Shiguang Co. Ltd., a distributor of our test preparation solutions software products, accounted for 10.8% of our net revenues for the six months ended September 30, 2007, while the PRC Ministry of Labor accounted for 12.3% and 8.5% of our net revenues for the fiscal year ended March 31, 2007 and the six months ended September 30, 2007, respectively. Our top five clients for the six months ended September 30, 2007, which included the China Banking Association, the PRC Ministry of Labor and three distributors of our test preparation solutions software products, accounted for 52.8% of our net revenues for the six months ended September 30, 2007. Due to our dependence on a limited number of clients, any one of the following events, among others, could cause material fluctuations or declines in our revenues and have a material adverse effect on our results of operations:

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

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

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

Our advanced technologies for the creation and delivery of computer-based tests, including our E-testing platform and our performance-based testing technologies, are a key factor in growing and maintaining our relationships with test sponsors, educational institution clients and educational program content providers. Our future success depends on our ability to upgrade our systems, develop new technologies and anticipate and meet the technical needs of our clients on a regular basis. The emergence

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in the market of new test creation and delivery technologies or substitute products and services could reduce the competitiveness or result in the obsolescence of our current technologies and services. Moreover, if other companies develop similar technologies offering functionality comparable to that of our technologies, pricing pressure may increase and our margins and results of operations may be adversely affected. Additionally, industry standards such as standard interfaces and data exchange protocols may be developed for testing technologies, and if these industry standards are incompatible with our technologies, demand for our technologies, products and services may decline significantly. To the extent we are unable to maintain our market leadership position in key testing technologies or anticipate and respond to technological developments and changes in industry standards in a timely and cost-effective manner, our products and services may lose market acceptance or become obsolete.

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

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

***We do not have any control over the business activities of the independent distributors of our NTET Tutorial Platform software after our sale of the software to them, and actions by them could harm our reputation and negatively impact the image of and demand for our NTET Tutorial Platform software and other test preparation solutions.***

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

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

Under our Simulation Technology License Agreement with Microsoft, Microsoft has the right to acquire for \$3.0 million a perpetual royalty-free license to the source code of our DST, along with the right to freely sell, license or sublicense the DST source code to third parties. The contract does not



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restrict which entities to which Microsoft may sell, license or sublicense the DST source code. While Microsoft's exercise of this option would generate \$3.0 million in revenue to us upon exercise, it may materially adversely affect our future revenues if Microsoft or any company to which Microsoft sells or licenses the technology uses it to directly compete with us.

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

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

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

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

We derived 46.9% and 20.6% of our total net revenues for the fiscal year ended March 31, 2007 and the six months ended September 30, 2007, respectively, from licensing and services fees from Chinese governmental agencies and educational institutions controlled by the Chinese government. Demand and ability to pay for our products and services by these agencies and institutions are affected by government budgetary cycles, funding availability and government policies. Funding reductions, reallocations or delays could adversely impact demand for our products and services by our clients or reduce the fees these clients are willing to pay for our products and services.

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

We believe that maintaining and enhancing the value of the "ATA" brand is important to attracting clients. Our success in maintaining brand awareness will depend on our ability to consistently provide high quality, value-adding, user-friendly and secure products and services. As we develop our test preparation solutions, we plan to accelerate our efforts to establish a wider recognition of the "ATA" brand to attract students from all over China and around the world to our test preparation solutions. To establish a wider recognition of our "ATA" brand among students and test takers, we may need to spend significant resources on advertising and distribution channels. As we have limited experience with advertising and other activities required to establish a widely recognized brand, we cannot assure you that we will effectively allocate our resources for these activities or succeed in maintaining and broadening our brand recognition and appeal. If we fail to maintain a strong brand identity, our business may not grow and our financial results may be adversely impacted.



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

As of September 30, 2007, we had contractual relationships with 1,810 authorized test centers. We do not own these centers and their employees are not our employees. Under our contracts with these test centers, we require them to provide sufficient facilities to properly administer computer-based tests and to follow prescribed guidelines for facility maintenance and test administration. We also conduct regular reviews of their facilities and operations and provide consulting services on test administration. However, our contractual arrangements with the test centers provide us with only limited ability to oversee their activities, and most test centers engage in other activities, such as serving as classrooms, when not administering tests. If a test center were to engage in unauthorized or unlawful conduct, whether related to administering computer-based tests or otherwise, our clients, prospective clients and the general public may associate this conduct with our brand, and negative publicity associated with this conduct could harm our reputation and lessen overall demand for computer-based testing services. Furthermore, our business may also be adversely affected if our authorized test centers do not maintain their premises, administer our computer-based tests in a manner consistent with our standards and requirements, or hire qualified personnel and train them properly. In addition, a liability claim against an ATA authorized test center or any center personnel may result in unfavorable publicity for us, our products and services and our other test centers, and could damage our brand and reputation, whether or not the claim is successful. While we may terminate our contracts and relationships with our authorized test centers if any of these events were to occur, we may not be able to identify problems or take action quickly enough to prevent harm to our reputation.

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

We face a number of international competitors in the Chinese and international markets for computer-based testing services, career-oriented educational services and test preparation solutions. Some of these competitors have longer operating histories, better recognized brands, larger technical staffs, stronger relationships with our existing IT industry clients and/or greater financial, technical and marketing resources than we possess. There are also a number of smaller Chinese firms that compete with us in our markets. In addition, because the markets for the services we offer are relatively new and growing rapidly, we anticipate that new entrants, both domestic and international, will try to gain market share from us, some of which may have closer relationships with Chinese educational institutions or IT vendors. These new entrants may include our current clients, such as Chinese governmental agencies and educational institutions, as well as IT vendors that provide us with course material content. In the future, competitors may introduce new technologies, products and services that have better performance, offer lower prices and gain broader acceptance than our technologies, products and services. Such new products may reduce the overall market for our products and services.

In the computer-based testing services market, Prometric and Pearson VUE are our main competitors. We compete with these and other computer-based testing services providers primarily on the basis of technology, price, management experience and established infrastructure. In the future, as more companies enter this market, we believe pricing may become increasingly competitive as well. In relation to our career-oriented educational services, we face competition from international companies, such as Aptech Limited and NIIT Limited. Aptech Limited operates in China primarily through its joint venture with BeiDa Jade Bird. Although these two companies offer IT-related courses to post-secondary educational institutions in China, based on our market experience and client communications we believe they do not directly compete with our products and services. For example, these two companies design their own course content and exams and provide passing students with their own proprietary certifications, rather than offering course content and certifications designed by well-known IT vendors, as we do. Traditional Chinese test preparation material providers, such as publishing companies, indirectly compete with our test preparation solutions. Increased competition could cause us to lose clients or make it

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necessary for us to reduce our prices in order to retain our clients, which may negatively affect our revenues and results of operations.

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

Our future success is dependent upon the continued services of our key executives, as we rely on their industry experience and expertise in our business operations. In particular, we rely heavily on our co-founders Kevin Xiaofeng Ma, our chairman and chief executive officer, and Walter Lin Wang, our president, for their business vision, management skills, technical expertise, experience in the testing, IT and education industries and working relationships with many of our clients, shareholders and other participants in the testing, IT and education industries. If either Mr. Ma or Mr. Wang were unable or unwilling to continue in their present positions, or if they joined a competitor or formed a competing company in violation of their employment agreements, we may not be able to replace them easily and our business may be severely disrupted. We do not maintain key-man life insurance for Mr. Ma or Mr. Wang or for any of our other employees.

***Because competition for highly skilled employees is intense, we may not be able to attract and retain the highly skilled employees we need to support our planned growth.***

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

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

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

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

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

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

We cannot assure you that our software and other technologies do not or will not infringe upon patents, valid copyrights or other intellectual property rights held by third parties. We may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses, and may be forced to divert management and other resources from our business operations, to defend against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities or may materially disrupt the conduct of our business by restricting or prohibiting our use of the intellectual property in question.

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

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

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

The insurance industry in China is not fully developed. Insurance companies in China offer limited business insurance products. While business disruption insurance may be available to a limited

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extent in China, we have determined that the risks of disruption and the difficulties and costs associated with acquiring such insurance render it commercially impractical for us to have such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation might result in our incurring substantial costs and the diversion of resources.

***We may face difficulties implementing our acquisition strategy, including identifying suitable opportunities and integrating acquired businesses and assets with our existing operations, which could interrupt our business operations or adversely affect our results of operations.***

As part of our business strategy, we may seek to broaden our service offerings, obtain additional clients and strengthen our service quality by acquiring other companies or businesses. However, our ability to implement our acquisition strategy will depend on a number of factors, including the availability of suitable acquisition candidates at an acceptable cost or at all, our ability to compete effectively to attract and reach agreement with acquisition candidates or joint venture partners on commercially reasonable terms, and the availability of financing to complete acquisitions or joint ventures as well as our ability to obtain any required government approvals or licenses. In addition, we cannot assure you that any particular acquisition or joint venture transaction will produce the intended benefits or synergies. For example, we may not be successful in integrating acquisitions with our existing operations and personnel. Moreover, the acquisitions we pursue may require us to expend significant management and other resources, which may result in interruption to our business operations.

There are other risks associated with acquisitions, including:

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

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

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

Capital requirements are difficult to plan in our rapidly changing industry. Currently, we expect that we will need capital to fund:

- developing and expanding our test preparation solutions business;
- marketing costs related to enhancing our “ATA” brand;
- licensing course content from IT vendors in order to expand our degree major and single course program offerings; and
- incremental costs associated with being a public company.

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

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

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

***Our independent registered public accounting firm, in the course of auditing our consolidated financial statements, noted material weaknesses in our internal control over financial reporting. If we fail to establish an effective system of internal control over financial reporting, we may not be able to accurately and timely report our financial results or detect or prevent fraud. In addition, investor confidence in us and the market price of our ADSs may be adversely impacted if we find that, or our independent registered public accounting firm reports that, our internal control over financial reporting is ineffective in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.***

We will be subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm must report on our internal control over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending on March 31, 2009. Our management may conclude that our internal control over our financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may report that our internal control over financial reporting is not effective.

Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Prior to this offering, we have been a private company with limited accounting and other resources with which to adequately address our internal controls and procedures. In connection with the audit of our prior consolidated financial statements (not included in this prospectus), our independent registered public accounting firm informed us that we lacked sufficient personnel with the appropriate level of accounting knowledge, experience and training in the application of U.S. GAAP, which deficiency amounted to a "material weakness" as defined

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under the standards established by the Public Company Accounting Oversight Board. In response to this material weakness and other internal control deficiencies previously reported to us by our independent registered public accounting firm we undertook certain remedial steps to improve our internal controls. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Internal Controls Over Financial Reporting.”

Despite these efforts, in connection with the audit of our consolidated financial statements for the years ended March 31, 2006 and 2007, our independent registered public accounting firm reported to us that we had two material weaknesses in our internal controls over financial reporting. One of the material weaknesses communicated to us was our inability to provide objectively verifiable evidence to apply cash collections against our accounts receivable balance following the implementation of a new operational system in December 2006. These cash collections were initially incorrectly recorded as deferred revenue, resulting in an audit adjustment to remove the overstatement of both accounts receivable and deferred revenue by RMB6.4 million as of March 31, 2007. The second material weakness communicated to us was our continuing lack of sufficient personnel with an appropriate level of accounting knowledge, experience and training in the application of U.S. GAAP. As a result of this material weakness, the following audit adjustments to our consolidated financial statements for the years ended March 31, 2006 and 2007 were required by our independent registered public accounting firm to be recorded by us: (1) adjustments to recognize additional revenue of RMB14.3 million and RMB2.2 million for the years ended March 31, 2006 and 2007, respectively, due to our initial inappropriate application of our revenue recognition policy; (2) an adjustment to charge to expense RMB9.2 million for the year ended March 31, 2007 due to the initial incorrect deferral of certain costs relating to our planned initial public offering that do not qualify for deferral; (3) adjustments to charge to expense RMB4.1 million and RMB2.5 million for the years ended March 31, 2006 and 2007, respectively, due to the initial improper recognition of share-based compensation; (4) adjustments to increase the income tax benefit by RMB0.5 million and RMB1.8 million for the years ended March 31, 2006 and 2007, respectively, due to the improper amount of valuation allowance initially recorded on deferred income tax assets; (5) an adjustment of RMB13.9 million to increase the net loss applicable to common shareholders for the year ended March 31, 2006 due to an error in the initial recording of the accretion of redeemable convertible preferred shares to redemption value; and (6) an adjustment to increase net loss for the year ended March 31, 2006 by RMB22.4 million due to an error in the initial recording of the extension of common share warrant. Certain of these errors also impacted, and required us to make adjustments to, our consolidated financial statements for periods prior to our fiscal year ended March 31, 2006.

Our independent registered public accounting firm also communicated to us other deficiencies in our internal control over financial reporting that required improvement. These deficiencies included (1) insufficient training of our newly adopted accounting system, resulting in various accounting errors; (2) lack of physical control over inventory items resulting from non-sequential numbering of goods delivery and receipt; (3) lack of performance review for obsolete inventory information; (4) insufficient management review and authorization of employee bonuses; (5) lack of accountability of recorded transactions resulting from insufficient documentation for client acceptance of goods and services received; (6) lack of sufficient reconciliation of bank account information; (7) lack of management review and authorization of classification and recording of certain expenses; (8) insufficient performance review for information on collectibility of accounts receivable; and (9) insufficient management review and authorization of applicability of value-added tax and business tax.

If we fail to timely establish and maintain internal controls, we may not be able to conclude that we have effective internal control over financial reporting. Moreover, effective internal control over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs.



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***Compliance with rules and requirements applicable to public companies may cause us to incur increased costs, and any failure by us to comply with such rules and requirements could negatively affect investor confidence in us and cause the market price of our ADSs to decline.***

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and Nasdaq, have required changes in corporate governance practices of public companies. We expect these rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. Complying with these rules and requirements may be especially difficult and costly for us because we may have difficulty locating sufficient personnel in China with experience and expertise relating to U.S. GAAP and U.S. public-company reporting requirements, and such personnel may command high salaries relative to what similarly experienced personnel would command in the United States. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which may be very costly. In addition, we will incur additional costs associated with our public company reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

***We may become a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. investors.***

Depending upon the value of our shares and ADSs and the nature of our assets and income over time, we could be classified as a PFIC by the United States Internal Revenue Service, or IRS, for U.S. federal income tax purposes. Based on assumptions as to our projections of the value of our outstanding shares during the taxable year, which runs from January to December, and our use of the proceeds of the initial public offering of our ADSs or shares and of the other cash that we will hold and generate in the ordinary course of our business throughout taxable year 2008, we do not expect to be a PFIC for the taxable year 2008. However, we cannot assure you that we will not be a PFIC for the taxable year 2008 and/or later taxable years, as PFIC status is tested each year and depends on our assets and income in such year. Our PFIC status for the current taxable year 2008 will not be determinable until the close of the taxable year ending December 31, 2008.

We will be classified as a PFIC in any taxable year if either: (1) the average percentage value of our gross assets during the taxable year that produce passive income or are held for the production of passive income is at least 50% of the value of our total gross assets or (2) 7% or more of our gross income for the taxable year is passive income. In particular, in determining the average percentage value of our gross assets, the aggregate value of our assets will generally be deemed to be equal to our market capitalization (determined by the sum of the aggregate value of our outstanding equity) plus our liabilities. Additionally, our goodwill (determined by the sum of our market capitalization plus liabilities, less the value of known assets) should be treated as a non-passive asset. Therefore, a drop in the market price of our ADSs and associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test. Accordingly, we would likely become a PFIC if our market capitalization were to decrease significantly while we hold substantial cash or cash equivalents.

If we were classified as a PFIC in any taxable year in which you hold our ADSs or shares and you are a U.S. holder, you would generally be taxed at higher ordinary income rates, rather than lower capital gain rates, if you dispose of ADSs or shares for a gain in a later year, even if we are not a PFIC in that year. In addition, a portion of the tax imposed on your gain would be increased by an interest charge. Moreover, if we were classified as a PFIC in any taxable year, you would not be able to benefit from any preferential tax rate with respect to any dividend distribution that you may receive from us in that year or in the following year. Finally, you would also be subject to special U.S. tax reporting requirements. For more information on the United States federal income tax consequences to you that would result from our classification as a PFIC, please see "Taxation — United States Federal Income Taxation — U.S. Holders — Status as a PFIC."



## Risks Relating to Regulation of Our Business

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

During the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2007, 50.9%, 50.4% and 27.4%, respectively, of our total net revenues came from license fees charged to vocational schools and other educational institutions in China for our career-oriented test-based educational services. We receive license fees for our educational services on a per-student basis. If the tuition fees chargeable by our educational institution clients were to decline, we may have difficulty maintaining or raising the per-student fees we charge for our educational services. As tuition fees are heavily regulated in China, any change in policy lowering or eliminating tuition fees chargeable by vocational schools or other educational institutions may have a negative impact on our pricing power and revenues generated from the license of our educational services. The Chinese government has tightened controls on tuition and other fees collected by certain types of educational institutions in China. While this has not had a noticeable impact on tuition fees chargeable for courses taught using our educational services, in the future there may be changes to Chinese policies and regulations regarding tuition fees that will have a negative impact on our business and results of operations.

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

The Chinese government has adopted preferential policies for the development of vocational schools in China, including “The Decision to Enhance the Promotion of the Reform and Development of Vocational Education” and “The Decision to Enhance the Development of Vocational Education” published by the State Council in September 2002 and October 2005, respectively. These decisions require all levels of government in China to intensify their support for vocational education and to gradually increase the financial resources that local and provincial governments allocate to vocational education. We believe that these governmental policies have encouraged clients to purchase our services and increased the funding available for purchasing our course programs. If these preferential policies were to be reduced or eliminated, it may negatively affect our business and results of operations.

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

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

Because we are a Cayman Islands company, we and our Chinese subsidiaries and their branch companies in China are treated as foreign or foreign-invested enterprises under Chinese laws and regulations. To comply with Chinese laws and regulations, we conduct our online businesses in China through a series of contractual arrangements entered into among us, ATA Learning and ATA Online, which is a domestic Chinese company incorporated in the PRC and owned by Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer and Walter Lin Wang, our co-founder, director and president. Our contractual arrangements with ATA Online include a technical support agreement and a strategic consulting service agreement. These contractual arrangements also include an equity pledge agreement entered into with each of the shareholders of ATA Online and a call option and cooperation agreement entered into with ATA Online and its shareholders. Under recently issued PRC law, a pledge of

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equity interests can only be valid after such pledge is registered at the relevant agency. However, we are not aware that any application for registration of an equity pledge has been processed by the local administration for industry and commerce in Beijing due to the lack of registration procedures, and we have therefore not yet registered our equity pledge over ATA Online's equity. ATA Online intends to register the equity pledge once the local registration authority implements registration procedures.

ATA Online holds a Telecommunications and Information Services Operating License, or ICP license, issued by the Beijing Telecommunications Administration Bureau, a local branch of the Ministry of Information Industry, or MII, which allows ATA Online to provide Internet content distribution services. This license is essential to the operation of our online test preparation services business which accounted for 2.1% of our total net revenues for the six months ended September 30, 2007.

The relevant Chinese regulatory authorities have broad discretion in determining whether a particular contractual structure is in violation of Chinese law. On July 26, 2006, MII publicly released the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecom Business, dated July 13, 2006, or the MII Notice, which reiterates certain provisions under the 2002 Administrative Rules on Foreign-Invested Telecommunications Enterprises prohibiting, among other things, the renting, transferring or sale of a telecommunications license to foreign investors in any form. There is currently no official interpretation or implementation practice under the MII Notice. It remains uncertain how the MII Notice will be enforced and whether or to what extent the MII Notice may affect the legality of the corporate and contractual structures adopted by foreign-invested Internet companies that operate in China, such as ours. We have made inquiries with officials at MII but have not yet been able to obtain a definitive answer regarding implementation of the MII Notice and any implications on the legality of our corporate and contractual structures. If our ATA Online corporate and contractual structure is deemed by MII to be illegal, either in whole or in part, we may have to modify such structure to comply with regulatory requirements. However, we cannot assure you that we can achieve this without material disruption to our business. Further, if our ATA Online corporate and contractual structure is found to be in violation of any existing or future Chinese laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
- levying fines on us;
- confiscating any of our income that they deem to be obtained through illegal operations;
- shutting down a portion or all of our servers or blocking a portion or all of our web site;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to restructure our corporate and contractual structure;
- restricting or prohibiting our use of the proceeds from this offering to finance ATA Online's business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

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

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

We could face material and adverse tax consequences if the Chinese tax authorities determine that our contractual arrangements with ATA Online were not priced at arm's length for purposes of determining tax liability. If the Chinese tax authorities determine that these contracts were not entered

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into on an arm's-length basis, they may adjust our income and expenses for Chinese tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could result in a reduction, for Chinese tax purposes, of deductions recorded by ATA Online, which could adversely affect us by increasing the tax liabilities of ATA Online. This increased tax liability could further result in late payment fees and other penalties to ATA Online for underpaid taxes. Any payments we make under these arrangements or adjustments in payments under these arrangements that we may decide to make in the future will be subject to the same risk.

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

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

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

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

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

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

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best interests of the company and not to use their positions for personal gain. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of ATA Online, we would have to rely on legal proceedings, which could result in disruption of our business and substantial uncertainty as to the outcome of any such legal proceedings.

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

To comply with PRC laws and regulations relating to foreign ownership restrictions in the Internet content distribution businesses, we currently conduct our operations in China through contractual arrangements with ATA Online. As part of these arrangements, ATA Online holds certain of the assets that are important to the operation of our online test preparation business. If ATA Online goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our online test preparation business operations, which could materially and adversely affect our business, financial condition and results of operations. If ATA Online undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our online test preparation business, which could materially and adversely affect our business, financial condition and result of operations.

***If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency determines that CSRC approval is required in connection with this offering, this offering may be delayed or cancelled, or we may become subject to penalties.***

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

In the opinion of our PRC counsel, Jincheng & Tongda Law Firm, CSRC approval is not required for this offering because the CSRC approval required under the M&A Rule only applies to an offshore company that has acquired a domestic PRC company for the purpose of listing the domestic PRC company's equity interest on an overseas stock exchange, while (i) we obtained our equity interest in each of our PRC subsidiaries by means of direct investment other than by acquisition of the equity or assets of a PRC domestic company and (ii) our contractual arrangements with ATA Online do not constitute the acquisition of ATA Online. However, if the CSRC or another PRC governmental agency subsequently determines that we must obtain CSRC approval prior to the completion of this offering, this offering will be delayed until we obtain CSRC approval, which may take many months. If during or following our offering it is determined that CSRC approval is 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, delay or restrict the repatriation of the proceeds from this offering into China, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. The CSRC or other PRC regulatory agencies also may take actions requiring us, or making it advisable for us, to halt this offering before settlement and delivery of the ADSs offered hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

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

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

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

We have adopted a holding company structure, and our holding companies rely principally on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for their cash requirements, including the funds necessary to service any debt we may incur or financing we may need for operations other than through our Chinese subsidiaries. Chinese legal restrictions permit payments of dividends by our Chinese subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with Chinese accounting standards and regulations. Our Chinese subsidiaries are also required under Chinese laws and regulations to allocate at least 10% of their after-tax profits determined in accordance with PRC GAAP to statutory reserves until such reserves reach 50% of the company's registered capital. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As of March 31, 2007, our Chinese subsidiaries had not allocated anything to these reserves and funds because both of our Chinese subsidiaries have cumulative deficits under PRC GAAP. The total amount of our restricted net assets was RMB39.8 million (\$5.3 million) as of March 31, 2007. Any limitations on the ability of our Chinese subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

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

Under the old PRC Enterprise Income Tax Law for Foreign-Invested Enterprises and Foreign Enterprises, effective until December 31, 2007, our Chinese subsidiaries, ATA Testing and ATA Learning, had been granted preferential tax treatment by local and national Chinese tax authorities. For example, as foreign-invested productive enterprises and new technology enterprises formed in the Zhongguancun Science Park, a high-technology zone in Beijing, ATA Testing and ATA Learning were given tax incentives that have the effect of (i) exempting them from enterprise income tax for their first three tax years following establishment; (ii) providing them a reduced enterprise income tax rate of 7.5% for the fourth through sixth tax years following establishment; and (iii) providing them a preferential enterprise income tax rate of 15% for tax years thereafter. ATA Testing, established in 1999, enjoyed a preferential enterprise income tax rate of 15% for the taxable year 2007, while ATA Learning was exempted from enterprise income tax for the tax years 2003, 2004 and 2005 and enjoyed a 7.5% enterprise income tax rate for the tax years 2006 and 2007.

In March 2007, the National People's Congress of China enacted a new Enterprise Income Tax Law, or the New EIT Law, and in December 2007, the State Council promulgated the implementing rules

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of the New EIT Law, both of which became effective on January 1, 2008. The New EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the previous tax law. The New EIT Law, however, (i) reduces the top rate of enterprise income tax from 33% to 25%, (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules, and (iii) introduces new tax incentives, subject to various qualification criteria. Under the phase-out rules, ATA Testing is expected to be subject to a reduced 18% enterprise income tax rate for the taxable year 2008, a 20% rate for 2009, a 22% rate for 2010, a 24% rate for 2011, and a normal 25% rate from 2012 onwards. ATA Learning is expected to be subject to a reduced 7.5% enterprise income tax rate for the taxable year 2008, and the same tax rates as those applicable to ATA Testing from 2009 onwards. The New EIT Law and its implementing rules permit certain “high-technology enterprises” to enjoy a reduced 15% enterprise income tax rate, although they do not specify the qualification criteria. Pending promulgation of detailed qualification criteria, we cannot assure you that ATA Testing or ATA Learning will qualify as high-technology enterprises under the New EIT Law. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Taxation.” In addition, national PRC tax authorities have indicated that preferential tax treatment granted to companies registered in high-technology zones, such as the Zhongguancun Science Park, should only apply if a beneficiary company’s operations are located within the high-technology zone. From their inception, the main offices of ATA Testing and ATA Learning and their employees have been located outside of the Zhongguancun Science Park. However, to date, the PRC tax authorities have not indicated, through their periodic audits or otherwise, that our PRC subsidiaries are ineligible for their preferential tax treatments. In the event the preferential tax treatment for any of ATA Testing or ATA Learning is discontinued, or if ATA Online is not granted or loses preferential tax treatment, the affected entity will become subject to the standard PRC enterprise income tax rate. We cannot assure you that the local tax authorities will not, in the future, change their position and discontinue any of our preferential tax treatments, potentially with retroactive effect. The discontinuation of any of our preferential tax treatments could materially increase our tax obligations.

***Under China’s new EIT Law, we may be classified as a “resident enterprise” of China. Such classification would likely result in unfavorable tax consequences to us.***

Under the New EIT Law, an enterprise established outside of China with “de facto management bodies” within China is considered a PRC resident enterprise and will normally be subject to enterprise income tax at the rate of 25% on its global income.” The implementing rules of the New EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties.” Currently no further interpretation or application of the New EIT Law and its implementing rules is available, therefore it is unclear how tax authorities will determine tax residency based on the facts of each case. If Chinese tax authorities determine that our ultimate holding company is a PRC resident enterprise, we may be subject to enterprise income tax at the rate of 25% on our global income. We are actively monitoring the possibility of “resident enterprise” treatment for the 2008 tax year and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

***Chinese regulation of loans and direct investments by offshore holding companies or their Chinese subsidiaries or affiliates may restrict our ability to use the proceeds of this offering as planned and our ability to execute our business strategy.***

In order to use our net proceeds from this offering in the manner as described under “Use of Proceeds,” we must invest the funds in our Chinese subsidiaries, through loans or capital contributions, and in our affiliated PRC entity, ATA Online, through loans. Under applicable Chinese laws, any loan made by us to ATA Testing or ATA Learning, both of which are foreign-invested enterprises, cannot exceed statutory limits tied to each company’s registered capital and total investment as approved by the Ministry of Commerce or its local counterpart, and all such loans must be registered with China’s State Administration of Foreign Exchange, or SAFE, or its local counterpart. Loans by us to ATA Online, as a domestic PRC enterprise, must be approved by the relevant government authority and must also be



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

A failure by us to obtain the necessary government approvals or complete any required registrations for a capital contribution, an increase in approved total investment or a loan on a timely basis, may restrict our ability to use the proceeds of this offering as planned and our ability to execute our business strategy.

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

In October 2005, SAFE, issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. Notice 75 states that Chinese residents must register with the relevant local SAFE branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a round-trip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by the Chinese residents.

Our shareholders who are Chinese residents did not establish our offshore companies as part of a round-trip investment to acquire or control through our offshore companies onshore assets or equity interests originally held by such Chinese resident shareholders. Nevertheless, in order to ensure that we remain in full compliance with all Chinese foreign exchange-related regulations, in 2006 our Chinese resident shareholders applied for registration with the Beijing branch of SAFE under Notice 75, but were orally informed that the application could not be accepted because Notice 75 does not apply to them. On May 29, 2007, SAFE issued the Notice of Operation Guidance for Notice 75, or Notice 106, according to which Chinese resident shareholders in an offshore company which has at least two years operating history and has made investment in China can apply for registration under Notice 75. There is no deadline for such registration. We have urged our Chinese resident shareholders to register under Notice 75 and they are preparing for such application. However, we cannot assure you that the application will be accepted by SAFE. Failure by such shareholders to comply with Notice 75 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects. See "Risks Relating to Regulation of Our Business — Because we rely principally on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for our cash requirements, restrictions under Chinese law on their ability to make such payments could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses."

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

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 legal developments in China.

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

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. While the Chinese economy has experienced significant growth in



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the past two to three decades, growth has been uneven, both geographically and among various sectors of the economy. Demand for our products and services depends, in large part, on economic conditions in China. Any slowdown in China's economic growth may cause potential clients to delay or cancel computer-based testing and IT and vocational education projects, which in turn could reduce our net revenues.

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.

The Chinese government has implemented various measures to encourage foreign investment and sustainable economic growth and to guide the allocation of financial and other resources, which have for the most part had a positive effect on our business and growth. However, we cannot assure you that the Chinese government will not repeal or alter these measures or introduce new measures that will have a negative effect on us.

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

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

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

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

A substantial majority of our revenues and operating expenses are denominated in Renminbi. Restrictions on currency exchange imposed by the Chinese government may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies. Under current Chinese regulations, Renminbi may be freely converted into foreign currency for payments relating to “current account transactions,” which include among other things dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our Chinese subsidiaries may also retain foreign exchange in their respective current account bank accounts, subject to a cap set by SAFE or its local counterpart, for use in payment of international current account transactions. Although the Renminbi has been fully convertible for current account transactions since 1996, we cannot assure you that the relevant Chinese government authorities will not limit or eliminate our ability to purchase and retain foreign currencies for current account transactions in the future.

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

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

Because substantially all of our revenues and expenditures are denominated in Renminbi and the net proceeds from this offering will be denominated in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and Renminbi will affect the relative purchasing power of these proceeds and our balance sheet and earnings per share in U.S. dollars following this offering. 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 after this offering 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.

Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.5% per day and the People’s Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future Chinese authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by Chinese exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

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

Our business and operations could be materially and adversely affected by the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, or other similar adverse public health development. In recent years, there have been reports on the occurrences of avian influenza in various parts of China

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and neighboring countries, including a few confirmed human cases. Any prolonged recurrence of an adverse public health development may result in health or other government authorities requiring the closure of our offices or the offices of our clients, or the cancellation of exams or classes to avoid students and others from congregating in closed spaces. Such occurrences would disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS or any other epidemic.

### **Risks Relating to This Offering**

***An active trading market for our ADSs may not develop and the trading price for our ADSs may fluctuate significantly.***

Prior to this offering, there has been no public market for our ADSs or our common shares underlying the ADSs. If an active public market for our ADSs does not develop after this offering, the market price and liquidity of our ADSs may be adversely affected. We have applied to list our ADSs on the Nasdaq Global Market. We can provide no assurances that a liquid public market for our ADSs will develop. The initial public offering price for our ADSs will be determined by negotiation between us and the underwriters based upon several factors, and we can provide no assurance that the price at which the ADSs are traded after this offering will not decline below the initial public offering price. As a result, investors in our securities may experience a decrease in the value of their ADSs regardless of our operating performance or prospects. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action suit, it could divert the attention of senior management, and, if adversely determined, could have a material adverse effect on our business, financial condition and results of operations.

***Stock prices of companies with business operations primarily in China have fluctuated widely in recent years, and the trading prices of our ADSs are likely to be volatile, which could result in substantial losses to investors.***

The trading prices of our ADSs are likely to be volatile and could fluctuate widely in response to factors beyond our control. In particular, the performance and fluctuation of the market prices of other technology companies with business operations mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs. In recent years, a number of Chinese companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines in connection with their initial public offerings. The trading performances of these Chinese companies' securities at the time of or after their offerings may affect the overall investor sentiment towards Chinese companies listed in the United States and consequently may impact the trading performance of our ADSs. These broad market and industry factors may significantly affect the market price and volatility of our ADSs, regardless of our actual operating performance.

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

***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 after the completion of this offering, 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.

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There will be 43,378,710 common shares outstanding immediately after this offering, or 44,840,912 common shares if the underwriters exercise their option to purchase additional ADSs in full. In addition, there are outstanding options and warrants to purchase an aggregate of 5,114,411 common shares, including options and warrants to purchase an aggregate of 3,604,041 common shares immediately exercisable as of the date of this prospectus. All of the ADSs sold in this offering will be freely tradable without restriction or further registration under the U.S. Securities Act of 1933, or the Securities Act, unless held by our "affiliates" as that term is defined in Rule 144 under the Securities Act. Subject to the 180-day lock-up restrictions described below and applicable restrictions and limitations under Rule 144 of the Securities Act of 1933, all of our shares outstanding prior to this offering will be eligible for sale in the public market. In addition, the common shares subject to options and warrants for the purchase of our common shares will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements described below and Rules 144 and 701 under the Securities Act of 1933. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common shares could decline.

In connection with this offering, we and our directors, officers and shareholders have agreed, subject to some exceptions, not to sell any common shares or ADSs for 180 days after the date of this prospectus without the written consent of the underwriters. However, the underwriters may release these securities from these lock-up restrictions at any time. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of our ADSs.

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

Following this offering, four of our existing shareholders, Kevin Xiaofeng Ma, Lijun Mai, Walter Lin Wang and SB Asia Investment Fund II, will beneficially own, collectively, approximately 61.8% of our outstanding common shares (assuming the conversion of all outstanding preferred shares into common shares) or 59.7% if the underwriters exercise their option to purchase additional ADSs in full. Each of these shareholders is expected to be an affiliate within the meaning of the Securities Act after this offering, due to the size of their respective shareholdings in us after the offering. Following this offering, SB Asia Investment Fund II, L.P. is expected to have one board representative on our five-director board, and will beneficially own approximately 29.3% of our outstanding common shares (assuming the conversion of all outstanding preferred shares into common shares) or 28.3% if the underwriters exercise their option to purchase additional ADSs in full. Accordingly, these shareholders have had, and may continue to have, significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In addition, without the consent of these shareholders, we could be prevented from entering into transactions that could be beneficial to us.

***Because the initial public offering price is substantially higher than the pro forma net tangible book value per share, you will incur immediate and substantial dilution.***

If you purchase ADSs in this offering, you will pay more for your ADSs than the amount paid by existing shareholders for their common shares on a per ADS basis. As a result, you will experience immediate and substantial dilution of approximately \$8.12 per ADS (assuming the conversion of all outstanding preferred shares into common shares and no exercise of outstanding options to acquire common shares), representing the difference between our pro forma net tangible book value per ADS as of September 30, 2007, after giving effect to this offering and the assumed initial public offering price of \$10.50 per ADS (the mid-point of the estimated range of the initial public offering price shown on the front cover of this prospectus). In addition, you may experience further dilution to the extent that our common shares are issued upon the exercise of share options. Substantially all of the common shares

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issuable upon the exercise of currently outstanding share options will be issued at a purchase price on a per ADS basis that is less than the initial public offering price per ADS in this offering.

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

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

- provisions that restrict the ability of our shareholders to call meetings and to propose special matters for consideration at shareholder meetings; and
- provisions that authorize our board of directors, without action by our shareholders, to issue preferred shares and to issue additional common shares, including common shares represented by ADSs.

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

***We have not determined a specific use for a portion of the net proceeds from this offering and we may use these proceeds in ways with which you may not agree.***

We have not determined a specific use for a portion of the net proceeds of this offering. Our management will have considerable discretion in the application of these proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our profitability or increase our ADS price. The net proceeds from this offering may also be placed in investments that do not produce income or that may lose value.

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

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

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

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voting instructions to the depository 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 depository and subsequently decide to change those instructions, you may not be able to do so in time for the depository to vote in accordance with your revised instructions. The depository 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 depository 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 depository 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 depository 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 depository 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 depository 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 depository 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 depository. 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 depository. However, the depository 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 depository 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 depository needs to maintain an exact number of ADS holders on its books for a specified period. The depository may also close its books in emergencies, and on weekends and public holidays. The depository may refuse to deliver, transfer or register transfers of our ADSs generally when the books of the depository



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are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or any government or government body, or under any provision of the deposit agreement, or for any other reason.

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

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

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

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

***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.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus and in particular the sections entitled “Prospectus Summary,” “Risk Factors,” “Use of Proceeds,” “Recent Developments,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Industry,” “Business” and “Regulation” contain forward-looking statements. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about us and our industry. 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 prospectus relate to, among others:

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

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Our actual results could be materially different from or worse than our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are set forth in the “Risk Factors,” “Recent Developments,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in this prospectus.

This prospectus also contains data relating to the testing and education markets in China and internationally that includes projections based on a number of assumptions. These markets may not grow at the rates projected by market data, or at all. The failure of these markets to grow at the projected rates may have a material adverse effect on our business prospects, results of operations and the market price of our ADSs. In addition, the relatively new and rapidly changing nature of these markets subjects any projections or estimates relating to the growth prospects or future condition of these markets to significant uncertainties. If any one or more of the assumptions underlying the market data turns out to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this prospectus relate only to events or information as of the date on which the statements are made in this prospectus. We undertake no obligation to update or revise any forward-looking statements after the date of this prospectus.

## OUR CORPORATE STRUCTURE

### Corporate History

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

In June 2003, we established a Chinese joint venture company, ATA Learning (Beijing) Inc., or ATA Learning, with Yinchuan Holding. Initially, we held a 40% equity interest in ATA Learning. We also had a call option to acquire Yinchuan Holding's 60% equity interest for RMB30 million, and Yinchuan Holding had a put option that would have obligated us, if exercised, to purchase Yinchuan Holding's 60% equity interest for RMB30 million. In May 2005, we exercised our call option and converted ATA Learning into a wholly owned subsidiary of ATA BVI. As the primary beneficiary of ATA Learning, we have consolidated ATA Learning's results of operations in our U.S. GAAP consolidated financial statements since ATA Learning's establishment.

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

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

- In December 2001, ATA Testing established and held a 50% interest in a Chinese joint venture company, Beijing Sai Er Xingyuan Leadership Ability Testing Technologies Development Co. Ltd., or Sai Er Testing, with one other joint venture partner. In October 2005, ATA Testing sold its 50% equity interest in Sai Er Testing.
- In April 2002, ATA Testing established a Chinese joint venture company, Jiangsu ATA Software Co. Ltd., or ATA Jiangsu, with two other joint venture partners, with ATA Testing holding 30% of the equity interest in ATA Jiangsu. In May 2006, ATA Jiangsu completed a voluntary winding up.
- In April 2005, ATA Learning established Xiamen Wendu Software Education Investment Co. Ltd., or Wendu Education, with two other partners. ATA Learning is in the process of disposing its 40% equity interest holding in Wendu Education, which we expect to be completed in the fiscal year ending March 31, 2008.

We disposed or are in the process of disposing of these interests to eliminate these entities from our corporate structure and streamline our operations.

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

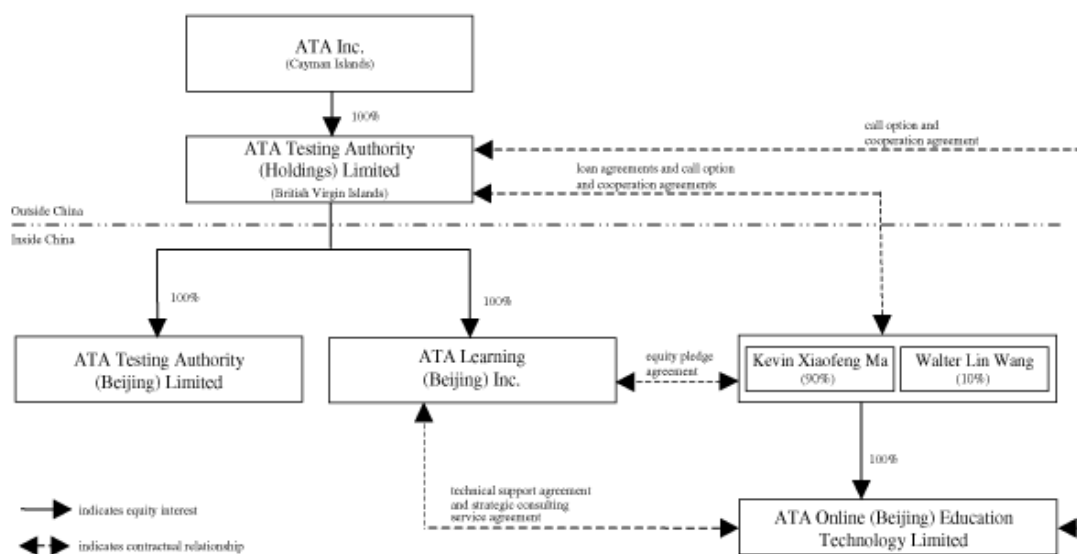
In connection with the launch of our test preparation solutions in November 2006, we have, for the first time, become a distributor of Internet content, which subjects us to significant restrictions on foreign investment in this sector under current PRC laws and regulations. See "Regulation." To comply with PRC laws and regulations, our online test preparation business in China is conducted through a series of contractual arrangements entered into among ATA BVI, ATA Learning and ATA Online (Beijing) Education Technology Limited, ATA Online, a PRC entity incorporated in the PRC and owned by Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer and Walter Lin Wang, our co-founder, director and president, in the percentages described in the diagram below. ATA Online holds the license required to operate the online portion of our test preparation solutions business.

Our contractual arrangements with ATA Online include a technical support agreement and a strategic consulting service agreement pursuant to which ATA Learning is entitled to receive service and license fees from ATA Online. In addition, we have entered into an equity pledge agreement with each of

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the shareholders of ATA Online pursuant to which each of the shareholders has pledged all of his or her interest in ATA Online to ATA Learning as security for the performance of ATA Online's obligations under the technical support agreement and the strategic consulting service agreement. Pursuant to a call option and cooperation agreement with ATA Online and its shareholders, ATA BVI or any third party designated by ATA BVI has the right to acquire, in whole or in part, the equity interest of ATA Online or ATA Online's assets, when permitted by applicable PRC laws and regulations. We do not have any direct ownership interest or direct shareholding rights in ATA Online and as a result do not have direct control or direct oversight over ATA Online. For a detailed description of these contractual arrangements, see "Related Party Transactions." As a result of these contractual arrangements, under U.S. GAAP, we are considered the primary beneficiary of ATA Online. Accordingly, we consolidate ATA Online's results in our consolidated financial statements.

The following diagram illustrates our corporate and share ownership structure. Except for ATA BVI, all of our subsidiaries and our affiliated PRC entity are incorporated in the PRC.



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

For risks associated with our contractual arrangements with ATA Online and its shareholders, see "Risk Factors — Risks Relating to Regulation of Our Business — Substantial uncertainties and restrictions exist with respect to the application and implementation of Chinese laws and regulations relating to Internet content distribution. If the Chinese government finds that the structure for our online test preparation services and other services we provide through the Internet do not comply with Chinese laws and regulations, we could be subject to penalties and may not be able to continue those businesses." and "— Our contractual arrangements with ATA Online and its shareholders do not provide us with ownership interest in ATA Online. If ATA Online or its shareholders fail to perform their respective obligations under these contractual arrangements, we may have to legally enforce such arrangements and our business, financial condition and results of operations may be materially and adversely affected if these arrangements cannot be enforced."

## USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately \$43.8 million, or approximately \$50.9 million if the underwriters exercise their over-allotment option in full, after deducting underwriting discounts and other estimated offering expenses payable by us and assuming an initial public offering price of \$10.50 per ADS, the mid-point of the estimated range of the initial public offering price shown on the front cover of this prospectus.

As of the date of this prospectus, we anticipate using the net proceeds from this offering as follows:

- approximately \$2 million to develop and expand our test preparation solutions business;
- approximately \$2 million to license course content from IT vendors to expand our degree major and single course program offerings;
- approximately \$1 million for marketing costs related to enhancing our “ATA” brand; and
- the balance to fund working capital and for other general corporate purposes, including incremental costs associated with being a public company, and for acquisitions of or investments in other businesses, products or technologies that we believe are complementary to our own business or that otherwise extend our business or brand. We do not currently have any agreements or understandings to make any material acquisitions of, or investments in, other businesses.

The industries in which we operate are evolving rapidly which could cause significant and rapid changes to our strategies and business plans. The foregoing represents our current intentions with respect to the use and allocation of the net proceeds from this offering based upon our present plans and business conditions, but our management will have broad flexibility and discretion in applying the net proceeds from this offering. The occurrence of new business opportunities, unforeseen events or changed business conditions may result in application of the proceeds from this offering in a manner other than as described in this prospectus.

To the extent that a certain portion or all of the net proceeds we receive from this offering are not immediately applied for the above purposes, we intend to invest our net proceeds in short-term, investment grade, debt securities or to deposit the proceeds into interest-bearing bank accounts. These investments may have a material adverse effect on the U.S. federal income tax consequences of your investment in our ADSs. It is possible that we may become a PFIC for U.S. federal income taxpayers, which could result in negative tax consequences to you. See “Taxation — United States Federal Income Taxation — U.S. Holders — Status as a PFIC.”

## DIVIDEND POLICY

In March 2005, our board of directors approved the issuance of 3,584,680 treasury shares to our shareholders. The estimated fair value of the issuance was RMB26.4 million. Out of the total number of shares issued, 2,730,739 shares were allocated and distributed on a pro rata basis to all shareholders and were accounted for as a share split-up effected in the form of a share dividend. The remaining 853,941 shares were distributed to one shareholder and were accounted for as a share-based compensation expense. See “Related Party Transactions — Share Repurchases and Private Placement.” We have never declared cash dividends on our common shares. We currently intend to retain all available funds and any future earnings to finance our business and to fund the growth and expansion of our business, and, therefore, do not expect to pay any cash dividends on our common shares, including those represented by ADSs, in the foreseeable future. Any future determination to pay dividends will be made at the discretion of our board of directors and will be based upon our future operations and earnings, capital requirements and surplus, general financial condition, shareholders’ interests, contractual restrictions and other factors our board of directors may deem relevant.

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



## CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2007 presented on:

- an actual basis;
- a pro forma basis to reflect the automatic conversion of all of our Series A and Series A-1 convertible preferred shares into an aggregate of 11,730,554 of our common shares; and
- a pro forma as adjusted basis to give effect to (1) the issuance and sale of 4,874,012 ADSs in this offering, assuming an initial public offering price of \$10.50 per ADS, the mid-point of the estimated range of the initial public offering price shown on the front cover of this prospectus, and assuming the underwriters do not exercise their overallotment option, and after deducting estimated underwriting discounts and estimated offering expenses payable by us; and (2) the automatic conversion of all of our Series A and Series A-1 convertible preferred shares into an aggregate of 11,730,554 of our common shares.

There has been no material change in our consolidated capitalization since September 30, 2007.

You should read this section in conjunction with “Selected Consolidated Financial and Operating Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and corresponding notes thereto included elsewhere in this prospectus.

	As of September 30, 2007					
	Actual		Pro forma		Pro forma as adjusted <sup>(1)</sup>	
	RMB	\$	RMB	\$	RMB	\$
	(In thousands except for share and per share data)					
<b>Shareholder’s equity:</b>						
Convertible preferred shares, \$0.01 par value; 10,000,000 shares authorized, including:						
Series A convertible preferred shares; 6,628,369 shares issued on an actual basis and nil shares issued on a pro forma and pro forma as adjusted basis	533	71	—	—	—	—
Series A-1 convertible preferred shares; 883,783 shares issued on an actual basis and nil shares issued on a pro forma and pro forma as adjusted basis	71	10	—	—	—	—
Common shares, \$0.01 par value; 40,000,000 shares authorized, 25,479,452, 37,210,006 and 46,958,030 shares issued on an actual, proforma and pro forma as adjusted basis <sup>(2)</sup>	2,094	279	2,967	396	3,703	494
Treasury shares — 3,579,320 common shares, at cost	(16,107)	(2,150)	(16,107)	(2,150)	(16,107)	(2,150)
Additional paid-in capital <sup>(3)</sup>	204,191	27,252	203,922	27,216	531,049	70,875
Accumulated deficit	(126,552)	(16,890)	(126,552)	(16,890)	(126,552)	(16,890)
<b>Total shareholders’ equity<sup>(3)</sup></b>	<b>64,230</b>	<b>8,572</b>	<b>64,230</b>	<b>8,572</b>	<b>392,093</b>	<b>52,329</b>
<b>Total capitalization<sup>(3)</sup></b>	<b>64,230</b>	<b>8,572</b>	<b>64,230</b>	<b>8,572</b>	<b>392,093</b>	<b>52,329</b>

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- (1) Assumes that the underwriters do not exercise their option to purchase additional ADSs.
- (2) Excludes 4,047,863 common shares issuable upon the exercise of options under our share option plans and 547,945 common shares issuable upon the exercise of warrants as of September 30, 2007, 391,800 common shares issuable upon exercise of options granted on October 1, 2007, and 126,803 common shares issuable upon exercise of warrants granted on October 15, 2007.
- (3) Assuming the number of ADSs offered by us as set forth on the cover page of this prospectus remains the same, and after deduction of underwriting discounts and the estimated offering expenses payable by us, a \$1.00 increase (decrease) in the assumed initial public offering price of US\$10.50 per ADS would increase (decrease) each of additional paid-in capital, total shareholders' equity and total capitalization by approximately US\$4.5 million.

## DILUTION

If you invest in our ADSs, your interest will be diluted to the extent of the difference between the initial public offering price per ADS and the pro forma net tangible book value per ADS after this offering. Our net tangible book value as of September 30, 2007 was approximately \$7.7 million, or \$0.35 per common share outstanding on that date, or \$0.70 per ADS. Net tangible book value represents total consolidated tangible assets minus the amount of our total consolidated liabilities. Our pro forma net tangible book value as of September 30, 2007 was approximately \$0.23 per common share, or \$0.46 per ADS. Pro forma net tangible book value adjusts net tangible book value to give effect to the conversion of all of our outstanding preferred shares into our common shares. See "Capitalization." Assuming we had sold the ADSs offered in this offering at an assumed initial public offering price of \$10.50 per ADS, and after deducting underwriting discounts and estimated expenses of this offering payable by us, our pro forma net tangible book value as of September 30, 2007 would have been \$1.19 per common share, or \$2.38 per ADS. This represents an immediate increase in pro forma net tangible book value of \$0.96 per common share, or \$1.92 per ADS, to existing shareholders and an immediate dilution in net tangible book value of \$4.06 per common share, or \$8.12 per ADS, to new investors purchasing ADSs at the initial public offering price.

The following table illustrates such per ADS dilution. The assumed initial public offering price per share set forth below of \$5.25 is based on the mid-point of the estimated range of the initial public offering price shown on the front cover of this prospectus.

Assumed initial public offering price per common share	\$ 5.25
Net tangible book value per common share as of September 30, 2007	\$ 0.35
Increase in pro forma net tangible book value per common share attributable to existing shareholders	\$ 0.96
Pro forma net tangible book value per common share after this offering	\$ 1.19
Dilution in pro forma net tangible book value per common share to new investors	\$ 4.06
Dilution in pro forma net tangible book value per ADS to new investors	\$ 8.12

The following table summarizes, on a pro forma basis as of September 30, 2007, the differences between our existing shareholders and the new investors with respect to the number of common shares purchased from us, the total consideration paid to us and the average price per common share paid by our existing shareholders and by the new investors purchasing common shares evidenced by ADS in this offering at the initial public offering price of \$10.50 per ADS and without giving effect to underwriting discounts and estimated offering expenses payable by us.

	Common Shares Purchased		Total Consideration		Average Price Per Ordinary Share Equivalent	Average Price Per ADS Equivalent
	Number (In thousands)	Percent	Amount (In thousands)	Percent		
Existing shareholders	33,631	78%	\$ 22,080	30%	\$ 0.66	\$ 1.32
New investors	9,748	22%	51,177	70%	5.25	10.50
Total	43,379	100%	\$ 73,257	100%		

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The foregoing discussion and tables assume no exercise of any outstanding options or warrants to purchase our common shares. As of September 30, 2007, there were options and warrants outstanding to purchase an aggregate of 4,595,808 common shares at a weighted average exercise price of \$1.94 per share. In addition, options to purchase 391,800 common shares were granted on October 1, 2007 and warrants to purchase 126,803 common shares were granted on October 15, 2007. If all of the options and warrants outstanding as of September 30, 2007 (excluding the options to purchase 391,800 common shares granted on October 1, 2007 and the warrants to purchase 126,803 common shares granted on October 15, 2007) had been exercised on September 30, 2007, after giving effect to this offering, our pro forma net tangible book value would have been approximately \$1.26 per common share or \$2.52 per ADS, the increase in pro forma net tangible book value attributable to existing shareholders would have been \$0.07 per common share, or \$0.14 per ADS, and the dilution in pro forma net tangible book value to new investors would have been \$3.99 per common share, or \$7.98 per ADS. In addition, the dilution would have been \$3.89 per common share, or \$7.78 per ADS, if the underwriters exercise their option to purchase additional ADSs in full.

## ENFORCEABILITY OF CIVIL LIABILITIES

Our ultimate holding company, ATA Inc., is incorporated under the laws of the Cayman Islands as an exempted company with limited liability. We incorporated ATA Inc. in the Cayman Islands because of certain benefits associated with being a Cayman Islands corporation, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent. In addition, Cayman Islands companies do not have standing to sue before the federal courts of the United States.

Substantially all of our assets are located outside the United States. In addition, most of our directors and officers may be nationals or residents of jurisdictions other than the United States and a substantial portion of their assets may be located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

We have appointed CT Corporation System as ATA Inc.'s agent to receive service of process with respect to any action brought against ATA Inc. in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any state in the United States or any action brought against ATA Inc. in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Conyers, Dill & Pearman, Cayman, our counsel as to Cayman Islands law, and Jincheng & Tongda Law Firm, our counsel as to Chinese law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands or China would, respectively, (i) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States, or (ii) entertain original actions brought in the Cayman Islands or China against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

Conyers, Dill & Pearman has further advised us that a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, may be subject to enforcement proceedings as a debt in the courts of the Cayman Islands under the common law doctrine of obligation, provided that (a) such federal or state courts of the United States had proper jurisdiction over the parties subject to such judgment; (b) such federal or state courts of the United States did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

Jincheng & Tongda Law Firm has advised us further that the recognition and enforcement of foreign judgments are provided for under the Chinese Civil Procedure Law. Chinese courts may recognize and enforce foreign judgments in accordance with the requirements of the Chinese Civil Procedure Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions.

## EXCHANGE RATE INFORMATION

Our business is primarily conducted in China and a substantial majority of our revenues and expenses are denominated in Renminbi. For your convenience, this prospectus contains translations of Renminbi amounts into U.S. dollars at specified rates. Unless otherwise noted, all translations from Renminbi to U.S. dollar amounts were made at the noon buying rate in the City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York, as of September 28, 2007, which was RMB7.4928 to \$1.00. On January 15, 2008, the noon buying rate was RMB7.2345 to \$1.00. We make no representation that the Renminbi or U.S. dollar amounts referred to in this prospectus 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. The Chinese government restricts or prohibits the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus or will use in the preparation of our periodic reports or any other information to be provided to you.

	Renminbi per U.S. Dollar Noon Buying Rate			
	Average <sup>(1)</sup>	High	Low	Period-end
Fiscal year ended March 31, 2003	8.2773	8.2800	8.2700	8.2774
Fiscal year ended March 31, 2004	8.2770	8.2798	8.2765	8.2770
Fiscal year ended March 31, 2005	8.2767	8.2773	8.2764	8.2765
Fiscal year ended March 31, 2006	8.1234	8.2765	8.0167	8.0167
Fiscal year ended March 31, 2007	7.8843	8.0300	7.7232	7.7232
Most recent six months:				
July 2007	7.5757	7.6055	7.5580	7.5720
August 2007	7.5734	7.6181	7.5420	7.5462
September 2007	7.5196	7.5540	7.4928	7.4928
October 2007	7.5016	7.5158	7.4682	7.4682
November 2007	7.4212	7.4582	7.3800	7.3850
December 2007	7.3682	7.4120	7.2946	7.2946
January 2008 (period through January 15)	7.2658	7.2946	7.2345	7.2345

Source: Federal Reserve Bank of New York

<sup>(1)</sup> Annual averages are calculated using the exchange rates for the last day of each month during the calendar year. Monthly averages are calculated using daily exchange rates during the month.



**SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA**

You should read the following information with our consolidated financial statements and related notes, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus. Our consolidated financial statements are prepared in accordance with U.S. GAAP.

The following selected consolidated statements of operations data for the fiscal years ended March 31, 2006 and 2007 (other than pro forma (loss) earnings per common share and ADS data), and the selected consolidated balance sheets data as of March 31, 2006 and 2007, are derived from our audited consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes. Our selected consolidated statements of operations data for the years ended December 31, 2002, 2003 and 2004 (other than ADS data) and the selected consolidated balance sheets data as of December 31, 2002, 2003 and 2004 are derived from our audited consolidated financial statements, which are not included in this prospectus. Our previously issued consolidated financial statements for the years ended and as of December 31, 2003 and 2004 have been restated. Our selected consolidated statements of operations data for the three months ended March 31, 2005 (other than ADS data) and the selected consolidated balance sheets data as of March 31, 2005 are derived from our unaudited consolidated financial statements, which are not included in this prospectus.

The selected consolidated statements of operations data for the six months ended September 30, 2006 and 2007 and the selected consolidated balance sheets data as of September 30, 2007 are derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. We have prepared our unaudited condensed consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited financial information includes all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the periods presented. The unaudited results for the six months ended September 30, 2007 may not be indicative of our results for the full year ending March 31, 2008.

	For the Year Ended December 31,			For the Three Months Ended	For the Year Ended		For the Six Months Ended		
	2002	2003	2004	March 31,	March 31,		September 30,		
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	\$
		(Restated)(1)	(Restated)(1)						
(In thousands, except for per share and per ADS data)									
<b>Selected Consolidated Statements of Operations Data:</b>									
Net Revenues									
Testing services	7,746	9,975	17,351	1,977	18,170	24,628	10,622	29,472	3,933
Test-based educational services	354	5,489	18,369	6,684	35,138	42,804	18,749	20,891	2,788
Test preparation solutions	134	82	407	17	340	10,076	5	21,632	2,887
Other(2)	5,260	7,073	8,394	1,780	15,389	7,373	2,992	4,253	568
Total net revenues	13,494	22,619	44,521	10,458	69,037	84,881	32,368	76,248	10,176
Gross profit	1,717	8,829	21,388	3,527	35,049	43,779	13,618	43,471	5,802
Total operating expenses	21,023	26,762	24,967	13,266	36,140	63,375	27,177	34,735	4,636
(Loss) income from operations(3)	(19,306)	(17,933)	(3,579)	(9,739)	(1,091)	(19,596)	(13,559)	8,736	1,166
Interest expense(4)	(2,729)	(9,093)	(9,690)	(1,143)	(22,713)	—	—	—	—
Foreign currency exchange losses, net	(1)	(2)	(2)	(66)	(1,050)	(909)	(519)	(186)	(25)
Net (loss) income	(25,681)	(26,874)	(12,198)	(8,683)	(24,809)	(16,790)	(11,857)	8,530	1,138

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	For the Year Ended December 31,			For the Three	For the Year Ended		For the Six Months Ended		
	2002	2003	2004	Months Ended	March 31,		September 30,		
	RMB	RMB	RMB	2005	2006	2007	2006	2007	2007
	(Restated)(1)	(Restated)(1)	(Restated)(1)	RMB	RMB	RMB	RMB	RMB	\$
(In thousands, except for per share and per ADS data)									
Accretion of Series A redeemable convertible preferred shares to redemption value	—	—	—	—	(13,889)	—	—	—	—
Foreign currency exchange translation adjustment on Series A redeemable convertible preferred shares	—	—	—	—	3,269	—	—	—	—
Net (loss) income (applicable) available to common shareholders <sup>(5)</sup>	(25,681)	(26,874)	(12,198)	(8,683)	(35,429)	(16,790)	(11,857)	8,530	1,138
Basic (loss) earnings per common share <sup>(5)</sup>	(1.28)	(1.34)	(0.61)	(0.50)	(2.16)	(0.82)	(0.61)	0.39	0.05
Diluted (loss) earnings per common share <sup>(5)</sup>	(1.28)	(1.34)	(0.61)	(0.50)	(2.16)	(0.82)	(0.61)	0.23	0.03
Pro forma basic (loss) earnings per common share <sup>(6)</sup>	—	—	—	—	—	(0.52)	—	0.25	0.03
Pro forma diluted (loss) earnings per common share <sup>(6)</sup>	—	—	—	—	—	(0.52)	—	0.23	0.03
Basic (loss) earnings per ADS <sup>(7)</sup>	(2.56)	(2.68)	(1.22)	(1.00)	(4.32)	(1.64)	(1.22)	0.78	0.10
Diluted (loss) earnings per ADS <sup>(7)</sup>	(2.56)	(2.68)	(1.22)	(1.00)	(4.32)	(1.64)	(1.22)	0.46	0.06
Pro forma basic (loss) earnings per ADS <sup>(6)(7)</sup>	—	—	—	—	—	(1.04)	—	0.50	0.06
Pro forma diluted (loss) earnings per ADS <sup>(6)(7)</sup>	—	—	—	—	—	(1.04)	—	0.46	0.06

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	As of December 31,			As of March 31,			As of September 30,	
	2002 RMB	2003 RMB (Restated) <sup>(1)</sup>	2004 RMB (Restated) <sup>(1)</sup>	2005 RMB	2006 RMB	2007 RMB	2007 RMB	2007 \$
(In thousands)								
<b>Consolidated Balance Sheet</b>								
<b>Data:</b>								
Cash	3,344	12,852	11,827	93,030	44,624	45,019	52,567	7,016
Accounts receivable, net	1,482	5,142	10,967	4,354	12,984	16,978	29,612	3,952
Due from related parties	295	323	21,381	23,798	4,368	20	—	—
Total current assets	6,631	21,614	50,189	125,881	67,989	76,656	97,744	13,045
Total assets	16,768	53,924	63,986	139,260	88,384	108,165	131,034	17,488
Note payable, current <sup>(6)</sup>	—	—	17,940	18,666	19,000	—	—	—
Due to related parties	9,033	50,804	54,576	46,277	1,644	—	—	—
Deferred revenues, current	9,109	10,640	23,288	20,564	22,340	26,341	27,177	3,627
Total current liabilities	25,013	74,185	113,575	112,453	53,937	45,620	59,257	7,909
Note payable, non-current <sup>(6)</sup>	18,570	15,384	—	—	—	—	—	—
Deferred revenues, non-current	7,426	14,377	10,442	8,585	8,555	7,897	7,547	1,007
Total liabilities	51,009	103,946	124,017	121,038	62,492	53,517	66,804	8,916
Accumulated deficit	(45,728)	(72,602)	(84,800)	(93,483)	(118,292)	(135,082)	(126,552)	(16,890)
Total shareholders' (deficit) equity	(34,241)	(50,022)	(60,031)	(94,444)	25,892	54,648	64,230	8,572

(1) During the course of preparing our consolidated financial statements for the years ended March 31, 2006 and 2007, we discovered that in certain cases prior to December 31, 2005, we recognized revenue prior to obtaining signed contracts from our customers. Consequently, because we did not have proper evidence of an arrangement at the time we recognized such revenue, our previously-issued consolidated financial statements for the years ended December 31, 2003 and 2004 have been restated to correct the errors in revenue recognition and, depending on the billing and customer payment status, corresponding corrections were made to accounts receivable, prepaid business tax (included in total current assets), deferred revenues and current taxes payable (included in total current liabilities). The following table summarizes the effects of the restatements on our selected consolidated operations data and consolidated balance sheet data as of and for the years ended December 31, 2003 and 2004.

	For the Year Ended December 31,					
	2003			2004		
	As Previously Reported RMB	Adjustments RMB	As Restated RMB	As Previously Reported RMB	Adjustments RMB	As Restated RMB
<b>Consolidated statements of operations data</b>						
Net revenues						
Test-based educational services	5,849	(360)	5,489	18,000	369	18,369
Total net revenue	22,979	(360)	22,619	44,152	369	44,521
Gross profit	9,190	(360)	8,829	21,019	369	21,388
Loss from operations	(17,573)	(360)	(17,933)	(3,948)	369	(3,579)
Net loss	(26,514)	(360)	(26,874)	(12,567)	369	(12,198)
Net loss applicable to common Shareholders	(26,514)	(360)	(26,874)	(12,567)	369	(12,198)
Basic loss per common share	(1.32)	(0.02)	(1.34)	(0.63)	0.02	(0.61)
Diluted loss per common share	(1.32)	(0.02)	(1.34)	(0.63)	0.02	(0.61)

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	As of December 31,					
	2003			2004		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
	RMB	RMB	RMB	RMB	RMB	RMB
Consolidated balance sheet data						
Accounts receivable, net	5,282	(140)	5,142	12,022	(1,055)	10,967
Total current assets	21,725	(110)	21,614	51,197	(1,008)	50,189
Total assets	54,034	(110)	53,924	64,994	(1,008)	63,986
Deferred revenue, current	10,394	246	10,640	24,399	(1,111)	23,288
Total current liabilities	73,915	270	74,185	114,573	(997)	113,575
Total liabilities	103,676	270	103,946	125,014	(997)	124,017
Accumulated deficit	(72,222)	(380)	(72,602)	(84,789)	(11)	(84,800)
Total shareholders' deficit	(49,642)	(380)	(50,022)	(60,020)	(11)	(60,031)

As a result of the correction of the error, accumulated deficit as of January 1, 2003 decreased from RMB45,708,000 to RMB45,728,000.

- (2) In March 2002, our subsidiary ATA Testing entered into an agreement with ATA Jiangsu to assign ATA Testing's rights and interests in a number of test delivery service contracts to ATA Jiangsu. ATA Testing collected a RMB6.5 million payment under this agreement in the year ended December 31, 2002. We initially anticipated that the test delivery service contracts would generate revenues and ATA Testing would provide ancillary services under the agreement for a period of ten years. We therefore deferred the recognition of revenue upon receipt of the payment, and began to recognize the payment into income over a ten year period for the years ended December 31, 2002, 2003 and 2004. However, on December 27, 2005, the board of directors of ATA Jiangsu resolved to commence a voluntary winding up of ATA Jiangsu. As a result, we recognized the remaining deferred revenue of RMB3.9 million into income in December 2005.
- (3) Includes non-cash share-based compensation expenses of nil, RMB1.3 million, RMB1.1 million, RMB6.4 million, RMB4.2 million, RMB2.5 million, RMB1.2 million and RMB1.1 million (\$0.1 million) for the years ended December 31, 2002, 2003 and 2004, the three months ended March 31, 2005, the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2006 and 2007, respectively. Our non-cash share-based compensation expense for the three months ended March 31, 2005 includes an expense of RMB6.3 million resulting from the issuance of 853,941 of our common shares to Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer, to reward his past performance.
- (4) Includes interest expense and loan discount charged for the years ended December 31, 2002, 2003 and 2004, the three months ended March 31, 2005 and the fiscal year ended March 31, 2006 of RMB2.7 million, RMB3.0 million, RMB2.6 million, RMB0.7 million and RMB22.7 million, respectively, in connection with a RMB19.0 million loan from a third party that was repaid in full on May 19, 2006. Also includes earnings attributable and payable to an investor of ATA Learning of RMB6.1 million and RMB7.1 million for the years ended December 31, 2003 and 2004, respectively.
- (5) Our PRC subsidiaries, ATA Testing and ATA Learning, enjoy tax holidays provided by local and national PRC tax authorities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Taxation." If our PRC subsidiaries had not enjoyed these tax holidays they would have had a preferential enterprise income tax rate of 15%. The following table shows the effects of the tax holidays for the periods indicated:

	For the Year Ended December 31,			For the Three Months Ended March 31,	For the Year Ended March 31,		For the Six Months Ended September 30,		
	2002	2003	2004	2005	2006	2007	2006	2007	2007
	RMB	RMB (Restated)	RMB (Restated)	RMB	RMB	RMB	RMB	RMB	\$
Effect on net (loss) income (applicable) available to common shareholders	1.260	399	(19)	90	(544)	155	183	231	31
Effect on basic (loss) earnings per common share	0.063	0.020	(0.001)	0.005	(0.033)	0.008	0.009	0.011	0.001
Effect on diluted (loss) earnings per common share	0.063	0.020	(0.001)	0.005	(0.033)	0.008	0.009	0.006	0.001

(6) Gives effect to the full conversion of preferred shares into 11,730,554 of our common shares, as if the conversion had taken place on April 1, 2006.

(7) Each ADS represents two common shares.

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

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	For the Year Ended December 31,			For the Three Months Ended March 31,	For the Year Ended March 31,		For the Six Months Ended September 30,	
	2002	2003 (Restated)	2004 (Restated)	2005	2006	2007	2006	2007
<b>Key Operating Data:</b>								
Testing services:								
Number of tests delivered <sup>(1)</sup>	848,840	1,399,170	1,851,476	245,012	2,583,712	3,335,701	2,004,640	2,065,249
Test-based educational services:								
Number of degree major course programs offered	6	13	25	23	36	74	74	74
Number of schools offering degree major course programs	4	41	85	82	117	137	128	135
Degree major student-months <sup>(2)</sup>	4,520	52,348	181,072	75,978	401,415	465,856	215,650	198,178
Number of single course programs offered	19	24	43	42	58	73	58	49
Number of schools offering single course programs	30	89	136	86	129	132	119	118
Single course student-months <sup>(3)</sup>	846	34,005	71,355	29,371	107,891	133,562	68,740	101,603
Test preparation solutions:								
Number of copies of NTET software sold	—	—	—	—	—	11,022	—	19,514

(1) Includes tests delivered through our test delivery platform and tests using our Dynamic Simulation Technology.

(2) Degree major student-months are calculated by (i) multiplying the number of students in each degree major by the number of months of that degree major course program in the relevant period and then (ii) aggregating the number of student-months for all of our degree major course programs during the period.

(3) Single course student-months are calculated by (i) multiplying the number of students in each single course program by the number of months of that single course program in the relevant period and then (ii) aggregating the number of student-months for all of our single course programs during the period.

## RECENT DEVELOPMENTS

The following is an estimate of certain unaudited selected consolidated financial data for the three months ended December 31, 2007. Because our financial statements for the three months ended December 31, 2007 have not been finalized and are subject to completion of our normal quarter-end closing procedures, the unaudited selected consolidated financial data for the three months ended December 31, 2007 set forth below may be subject to change.

We estimate:

- total net revenues were between RMB63.0 million (\$8.4 million) and RMB67.5 million (\$9.0 million), compared to RMB36.3 million for the three months ended December 31, 2006;
- gross profit was between RMB42.8 million (\$5.7 million) and RMB46.0 million (\$6.1 million), compared to RMB25.9 million for the three months ended December 31, 2006;
- income from operations was between RMB14.8 million (\$2.0 million) and RMB16.0 million (\$2.1 million), compared to RMB6.6 million for the three months ended December 31, 2006; and
- net income was between RMB10.6 million (\$1.4 million) and RMB12.0 million (\$1.6 million), compared to RMB6.9 million for the three months ended December 31, 2006.

We estimate that our total net revenues, gross profit, income from operations and net income for the three months ended December 31, 2007 reached their highest quarterly levels in our operating history, primarily due to a large increase in net revenues from testing services, which we estimate were between RMB34.8 million (\$4.6 million) and RMB37.3 million (\$5.0 million), compared to RMB10.9 million for the three months ended December 31, 2006. This increase in testing services net revenues was driven to a large degree by significant increases in the number of finance industry-related tests, principally banking and securities licensure tests, that we delivered during the three months ended December 31, 2007. The large increase in testing services net revenues was partially offset by slower growth in net revenues from test-based educational services, which was primarily due to a decline in net revenues from degree major course programs. We estimate that our cost of revenues and operating expenses also increased significantly during this quarter, generally in line with our revenue growth. We estimate our cost of revenues and operating expenses included approximately RMB9.3 million (\$1.2 million) in share-based compensation expenses, the substantial majority of which relate to our October 2007 grant of share options to employees.

Our preliminary consolidated financial data for the quarter ended December 31, 2007 are subject to adjustment based upon, among other things, completion of our reporting processes. Actual results could differ materially from the estimates provided above. For example, total net revenues are subject to finalization of our determination of revenues to be recognized in the quarter or deferred to future periods and the amount of accrued business tax, income from operations is also subject to finalization of our share-based compensation expenses and other operating expenses, and net income is further subject to finalization of our determination of income tax expense for the quarter. For additional information regarding the various risks and uncertainties inherent in such estimates, see "Special Note Regarding Forward-Looking Statements." Financial results for the three months ended December 31, 2007 may not be indicative of our full year results for the fiscal year ending March 31, 2008 or future quarterly periods. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding trends and other factors that may influence our financial results.

Our quarterly results of operations are subject to seasonal fluctuations. In particular, net revenues from testing services and test preparation solutions are typically highest in the quarter ending December 31 due to a generally higher number of tests delivered by our clients during that quarter and lowest in the quarter ending March 31. Principally due to this seasonal decline in net revenues from testing services and



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test preparation solutions, we expect our total net revenues, gross profit, income from operations and net income to be significantly lower during the three months ending March 31, 2008 than they were for the three months ended December 31, 2007. As a result, we currently estimate that we may incur a net loss from operations and a net loss for the three months ending March 31, 2008. In addition, we may also incur a net loss from operations and a net loss for the three months ending June 30, 2008 depending on whether certain large-scale tests, such as the banking licensure test, are scheduled in the quarter ending September 30, 2008 instead of the prior quarter.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled "Selected Consolidated Financial and Operating Data" and our consolidated financial statements and the related notes for the fiscal years ended March 31, 2006 and 2007 included elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with U.S. GAAP. The discussion in this section contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.*

### Overview

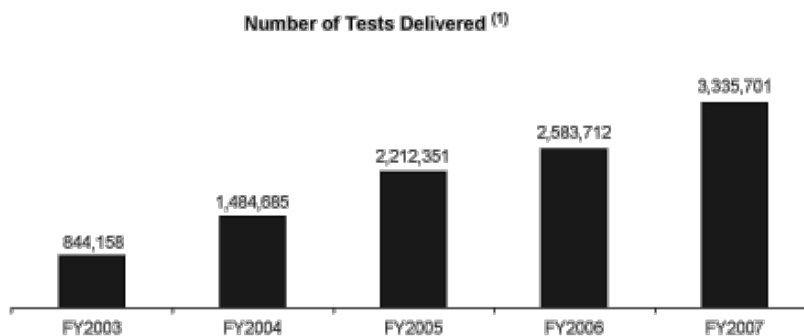
#### ***Our Business***

We are the leading provider of computer-based testing services in China, with the largest market share, 30.9%, in terms of revenue in 2006, according to IDC. We also provide career-oriented test-based educational programs and test preparation solutions. To comply with PRC law, we operate the online portion of our test preparation solutions business through a series of contractual arrangements with ATA Online (Beijing) Education Technology Limited, or ATA Online, a PRC entity owned by two of our founders and over which we do not have direct control or direct oversight. We have experienced significant growth in our business during the fiscal year ended March 31, 2007. Our total net revenues have increased from RMB69.0 million for the fiscal year ended March 31, 2006 to RMB84.9 million (\$11.3 million) for the fiscal year ended March 31, 2007, and from RMB32.4 million for the six months ended September 30, 2006 to RMB76.2 million (\$10.2 million) for the six months ended September 30, 2007. We had net losses of RMB24.8 million and RMB16.8 million for the fiscal years ended March 31, 2006 and 2007, respectively, and net income of RMB8.5 million (\$1.1 million) for the six months ended September 30, 2007.

We started our business in 1999 focusing on providing computer-based testing services to test sponsors. Our revenues from the licensing of testing services, which we provide to test sponsors, have grown primarily as a result of increases in the number of test takers who take tests created and delivered using our testing technologies as well as our ability to secure increasing numbers of new contracts from test sponsors for the creation and delivery of new computer-based test titles. Testing services revenues accounted for 32.8% and 38.7% of our total net revenues for the six months ended September 30, 2006 and 2007, respectively. In the near term, we expect our testing services revenues to continue to be the largest source of our total net revenues as a result of new contracts with test sponsors in the banking, securities and insurance sectors. Our testing services are also important for reasons other than the revenues they generate. The expertise we have developed in the creation and delivery of large scale tests covering a wide variety of test topics and industries contributes to our ability to create and offer career-oriented course programs and test preparation solutions.

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The following graph shows the growth in the number of tests delivered using our testing technologies for the twelve months ended March 31, 2003, 2004, 2005, 2006 and 2007.



(1) Includes tests delivered through our E-testing platform and tests using our Dynamic Simulation Technology.

Leveraging our testing expertise, in 2002 we began offering our career-oriented course programs, which we market to Chinese educational institutions. We develop our course programs by integrating our testing technologies and services with IT learning content authorized by major IT vendors. Many of our course programs allow students to earn an IT vendor certificate upon completion of the program and the successful passage of related tests in addition to earning credits toward graduation. In March 2006, we began to offer pre-occupational training programs, which are programs with trained instructors that allow students to obtain practical skills through exercises designed to more closely align their skills with specific job requirements. Licensing fees from test-based educational services accounted for 57.9% and 27.4% of our total net revenues for the six months ended September 30, 2006 and 2007, respectively.

By integrating our testing technologies with targeted test preparation content for certain professional licensure and certification tests, in 2006 we began offering test preparation solutions for the securities, insurance and teaching industries. ATA Online, our affiliated PRC entity, launched online test preparation Internet web sites in coordination with the Securities Association of China, the China Futures Association and the China Banking Association to help candidates across China practice and prepare for these organizations' professional licensure and certification tests, which tests are delivered by us through our test delivery platform. We also offer our NTET Tutorial Platform software, which comprises a comprehensive set of training materials to prepare teachers for certification under the National Teachers' Skill Test of Applied Educational Technology in Secondary and Elementary Schools, or NTET test, which is delivered nationwide through our test delivery platform. Revenues from our test preparation solutions increased as a percentage of our total net revenues from 0.5% for the fiscal year ended March 31, 2006 to 28.4% for the six months ended September 30, 2007.

On October 15, 2007, we entered into definitive agreements to purchase the entire equity interests of Beijing Jindixin Software Technology Company Limited and JDX Holdings Limited, which are related companies incorporated in China and the British Virgin Islands, respectively, engaged in the development and marketing of software for computer-based tests. The aggregate cash consideration for the acquisition is RMB10.0 million. On October 15, 2007, we made a deposit of RMB2.0 million in the aggregate to the sellers with the remainder of the consideration due upon closing. The transaction is expected to close in March 2008, subject to satisfaction of customary closing conditions. In conjunction with the acquisition, we also issued to certain of the sellers warrants for the purchase of an aggregate of 126,803 of our common shares at a strike price of \$5.25 per share, which warrants are exercisable upon the closing of the transaction and expire on April 30, 2008. On the date of issuance, the estimated intrinsic value of the warrants granted to certain of the sellers approximated RMB4.1 million (\$0.5 million) based on the

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estimated fair market value of underlying shares of \$9.52 (the mid-point of the estimated range of the initial public offering price of this offering after a discount of 9.16% to account for inherent business risk and lack of marketability).

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

Some of the key factors affecting our results of operations are:

- growth in China's professional services sector resulting in increasing demand for qualified and certified talent in China;
- overall economic growth and rising income levels in China contributing to increased spending on education, testing and test preparation;
- government and industry initiatives to standardize and license professionals in industries such as securities, futures, banking, law and accounting;
- growth in the use of computer-based tests and performance-based tests and willingness of test sponsors and educational program providers to outsource test content development and delivery for sophisticated computer-based and performance-based tests;
- emphasis on, and government encouragement for, career-oriented and IT-related educational programs in China;
- the increasing importance of identifying qualified talent contributing to increasing demand for testing and certification programs that can confirm the qualifications of the applicant or job seeker;
- acceptance by educational institutions of our career-oriented and IT-related educational programs; and
- our introduction of new services, such as our pre-occupational training programs launched in March 2006 and our test preparation solutions launched in November 2006.

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

In addition, our results of operations for the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2007 have been significantly affected by the following factors:

- share-based compensation;
- the impact of certain preferential tax rates and tax holidays;
- valuation of tax loss carryforwards;
- foreign currency exchange losses;
- accretion of, and foreign currency exchange translation adjustment on, our Series A redeemable convertible preferred shares, or preferred shares, to redemption value;
- interest expense relating to extension of a warrant to a third-party lender;
- recognition into income in the fiscal year ended March 31, 2006 of previously deferred revenue of RMB3.9 million from ATA Jiangsu as a result of its voluntary winding up;
- gain on disposal of Xiamen Wendu Software Education Investment Co. Ltd., or Wendu Education, in the amount of RMB2.8 million, which was consummated during the six months ended September 30, 2007; and
- the relative proportion of our net revenues derived from higher-gross margin and lower-gross margin product and service offerings.

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Going forward, we expect our results of operations to be affected by the following:

- share-based compensation;
- the impact of certain preferential tax rates and tax holidays;
- valuation of tax loss carryforwards;
- foreign currency exchange losses; and
- the relative proportion of our net revenues derived from higher-gross margin and lower-gross margin product and service offerings.

### Net Revenues

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

	For the Fiscal Year Ended March 31,				For the Six Months Ended September 30,					
	2006		2007		2006		2007			
	RMB	%	RMB	%	RMB	%	RMB	\$	%	
(In thousands, except for percentages)										
Net revenues:										
Testing services	18,170	26.3%	24,628	29.0%	10,622	32.8%	29,472	3,933	38.6%	
Test-based educational services	35,138	50.9%	42,804	50.4%	18,749	57.9%	20,891	2,788	27.4%	
Test preparation solutions	340	0.5%	10,076	11.9%	5	0.1%	21,632	2,887	28.4%	
Other	15,389	22.3%	7,373	8.7%	2,992	9.2%	4,253	568	5.6%	
Total net revenues	<u>69,037</u>	<u>100.0%</u>	<u>84,881</u>	<u>100.0%</u>	<u>32,368</u>	<u>100.0%</u>	<u>76,248</u>	<u>10,176</u>	<u>100.0%</u>	

### Testing Services

We derive testing services revenues from licensing fees charged to test sponsors for our test delivery services and from simulation testing technology licensing. Revenues from testing services accounted for 26.3%, 29.0%, 32.8% and 38.7% of our total net revenues for the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2006 and 2007, respectively.

*Test delivery services.* We generate test delivery services revenues through licensing fees charged for providing computer-based testing services to test sponsors such as governmental agencies, IT vendors and other sponsors of licensure and certification tests. We offer our clients a comprehensive set of services for the compilation, delivery and analysis of computer-based tests using our E-testing platform, as well as logistical services such as test registration and fee collection. Tests delivered through our E-testing platform may be conducted at our ATA authorized test centers or at other locations at the test sponsor's discretion. We generate revenues from our test delivery services through technology licensing fees charged to test sponsors based on the total number of test takers taking a requested test. Our clients typically pay us within three to six months of delivery of the test. We recognize revenue for test delivery services upon completion of the relevant test.

We have experienced seasonality and expect in the future to continue to experience seasonality in revenues and accounts receivable related to our test delivery services. We typically have higher net revenues from test delivery services in the quarter ending December 31 than in other quarters due to a generally higher number of tests delivered by our clients during that quarter. Net revenues from test delivery services are typically lowest in the quarter ending March 31. Our second largest quarter in terms

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of number of tests delivered may vary between the quarters ending June 30 and September 30 depending on whether certain large-scale tests, such as the banking licensure test, are scheduled in one or the other quarter. Depending on when we receive payment from our test sponsor clients, we may experience substantial increases in our accounts receivable balance at the end of the quarter ending December 31 of each fiscal year.

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

### **Significant Factors Affecting Testing Services**

The most significant factor directly affecting our revenues from licensing fees charged for our testing services are the number of test takers. The number of test takers for a test is driven by our ability to secure contracts with test sponsors for the creation and delivery of computer-based test titles popular with test takers. The volume of tests we offer is determined by the willingness of test sponsors to use our services. We believe test sponsors choose our services because (i) for all test sponsors, our testing services provide a proven and technologically advanced computer-based and performance-based testing format that is stable, cost-effective, secure, accurate and better able to assess the real-world, practical skills of test takers, (ii) for government test sponsors, our testing services allow governmental agencies to outsource the burden and difficulty of administering large-scale tests to a third-party service provider better equipped to handle the testing process, and (iii) for IT vendors, our testing services help perpetuate the market prevalence of their products and technologies and help identify technical talent from across China. Our revenues from licensing fees charged for our testing services revenues are also affected by the price we can charge per test, which generally remains fairly stable once we are engaged by a test sponsor to help deliver a particular test.

Demand and pricing for a test is affected by whether a certain profession, career or job position for which the certification, licensure or qualification test is being given is considered desirable by potential test takers. Some industries may experience fluctuations in the numbers of people attempting to become qualified to participate in the industry, depending on the overall health of the relevant industry, changes in average salary levels in the relevant industry, the popularity of certain types of careers and employers, governmental policies that impact the relevant industry, or other factors. Tests that test proficiency in specific IT-related skill sets are particularly sensitive to changes in or the obsolescence of the relevant technologies.

In addition, obtaining contracts from test sponsors for new test titles and for upgrading existing test titles often requires us to expend considerable time and resources. Many of our clients administer tests to a large number of people on a regular basis, and maintaining consistency and stability from year to year in the test delivery format is important to them. The decision process involved in adopting a new type of test or a new test delivery format can be difficult and complex. These factors often result in significant delays in our ability to secure contracts, which can make it difficult for us to predict our revenues from licensing fees from test sponsors in any given year. On the other hand, for test sponsors that administer many tests on a regular basis, our ability to secure an initial contract and to effectively meet their test delivery requirements under the contract can help us obtain future test title contracts from that test sponsor, which enables us to increase and diversify our revenues and to hinder the ability of competitors to secure contracts with the test sponsor. In addition, our ability to license our simulation technology to leading IT vendors and other clients that require cutting-edge computer-based simulation testing technologies depends largely on our ability to maintain and extend our technology leadership in this area.

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In this regard, our revenues from licensing fees from test sponsors may be negatively affected if Microsoft exercises its contractual option to purchase the source code of our Dynamic Simulation Technology. See “Risk Factors — Risks Relating to Our Business — If Microsoft exercises its contractual option to acquire the source code of our Dynamic Simulation Technology, or DST, Microsoft or a company to which Microsoft licenses or sells such technology may be able to more effectively compete with us.” We have not received any indication from Microsoft that it intends to exercise this purchase option.

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

### ***Test-Based Educational Services***

We receive licensing fees from test-based educational services charged to educational institutions for our degree major course programs, single course programs and pre-occupational training programs. Revenues from these licensing fees accounted for 50.9%, 50.4%, 57.9% and 27.4% of our total net revenues for the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2006 and 2007, respectively.

*Degree major course programs.* Our degree major course programs are comprised of a series of individual course programs designed to help students acquire a cluster of skill sets that can best prepare them for specific job types and careers, and, in some cases, allow them to acquire certifications from well-known IT vendors. Our degree major course programs are designed to be completed within one to five years, with the majority being completed in two to three years. Our course content and related tests for each course in the degree major course program integrate our computer-based simulation and other testing technologies with IT learning content and certifications authorized by the IT vendors. Revenues from our degree major course program offerings accounted for 49.2% and 20.3%, respectively, of our total net revenues, and 84.9% and 73.9%, respectively, of our test-based educational services net revenues, in the six months ended September 30, 2006 and 2007. We expect our degree major course programs to continue to contribute a substantial majority of our revenues from licensing fees from test-based educational services as these programs become more popular with educational institutions across China.

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

Revenues from our degree major course programs may fluctuate because revenues from the final year of the degree major course program are recognized over a ten-month period (generally September through June) while revenues from the first through the next-to-last years of the program are recognized over a 12-month period (generally September through August). In the fiscal year ended March 31, 2007, we experienced lower revenues from these programs in the quarter ended September 30, 2006 as final year students comprise a material amount of the revenue contributing student population and we do not recognize revenues in July and August for these students. We expect this seasonal fluctuation to continue while the magnitude of the fluctuation depends on the proportion of students in early years of the programs as compared to students in the latter years of the program.



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We also expect some seasonality in our billing and accounts receivable related to degree major course programs. Our contractual right to collect from our clients typically falls around the months of October to November when the number of enrolled students is confirmed. A large portion of our clients settle payment with us two to three months after that time, around the months of December and January. Depending on the mix of clients that pay us in December or January each year, we may experience fluctuations in our accounts receivable balance and cash booked. As a result, our accounts receivable have historically been highest at the end of the quarter ending December 31 of each fiscal year.

*Single course programs.* Our single course programs typically center around a specific type of computer software application or other technology that requires significant training and practice to master and for which certification is offered. Our single course programs integrate our testing technologies and services with IT learning content and certifications authorized by well-known IT vendors. Chinese universities, vocational colleges and other educational institutions offer these course programs to non-IT major students as elective courses. In order to receive certification from IT vendors, students must pass a computer-based test administered at the end of the single course program. Revenues from our single course program offerings accounted for 7.7% and 5.3%, respectively, of our total net revenues, and 13.2% and 19.5%, respectively, of our test-based educational services net revenues, for the six months ended September 30, 2006 and 2007.

We generate revenues from our single course programs through licensing fees charged to educational institutions. We charge licensing fees for our single course programs based on a pre-agreed fee per student taking each course. A portion of the per-student fee, generally 30% to 50% of the total, is due prior to delivery of the course materials at the beginning of the course period based on the number of students who enroll in the course. The remainder of the per-student fee is due prior to delivery of the final test and is based on the number of students taking the final test. We charge schools based on our perceived market value of the certification to be awarded to the student at the completion of the course.

Our contracts for single course programs entered into prior to January 2006 were silent as to the term or period that we are required to provide services. Beginning in January 2006, we have revised the standard terms of our single course program contracts to stipulate that we have no obligations to provide future services after a definitive term even if the course has not been completed. We are also in the process of amending or replacing our single course program contracts entered into prior to January 2006 to stipulate that we have no obligations to provide future services after six or 12 months from the commencement of our services. As of September 30, 2007, approximately 20% of our effective single course program contracts entered into prior to January 2006 have been amended to include the contractual term of service period. Upon commencement of a single course program that does not have a definitive term, we estimate, based on our historical experience, the percentage of contracts that will be completed within 12 months, and recognize revenue for such contracts on a straight-line basis over a period of five months, which is the expected service period based on historical averages. For the percentage of contracts that are not expected to be completed within 12 months, we do not recognize revenue until the course is completed or we otherwise obtain confirmation from the educational institution that we no longer have any future obligations.

For all single course programs that have a definitive term of service period, we recognize revenue on a straight-line basis over the service period or the contractual period, whichever is longer.

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

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

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

We recognize revenue from licensing our pre-occupational training programs over the service delivery period on a straight-line basis, either over the typical training period of two to three months, or if the license fee charged is on a per-year basis, over the 12-month period from the commencement date. We typically collect cash either in full prior to delivery of the service, or 50% at the time when the service is first delivered and 50% just prior to completion of services. Instructor deployment revenue is collected prior to instructor deployment, and is recognized on straight-line basis over the service delivery period. Revenues from our pre-occupational training program offerings accounted for 1.1% and 1.8%, respectively, of our total net revenues, and 1.9% and 6.6%, respectively, of our test-based educational services net revenues, in the six months ended September 30, 2006 and 2007.

### ***Significant Factors Affecting Test-Based Educational Services***

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

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

*Our ability to add schools that offer our course programs.* Our ability to increase student-months and grow revenues from licensing fees from test-based educational services depends on our ability to continue to add new educational institutions to our client list, expand our program offerings from existing and new IT vendors, expand program offerings to subjects outside of the IT sector and maintain our relationships with our existing educational institution clients. As schools continue to offer our programs to enable students to obtain vocational skills, our number of student-months and our revenues from licensing fees from educational institutions will increase. Schools in China are required by national policy initiatives to provide more career-oriented courses and practical skills training to assist students entering the IT industry. In addition, we believe employers and industry associations in China are increasingly requiring job applicants and industry participants to obtain professional certifications and licenses to qualify for increasing numbers of positions in various industries.

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Our experience has been that schools typically take a conservative and incremental approach to new technologies and teaching methods, preferring to start small with the adoption of two or three degree major course programs to allow teachers to be properly trained to administer the courses and to test the receptiveness of students to the courses. In addition, educational institutions generally make purchasing decisions for our course programs during the latter part of the school year, typically from April to July of each year, to allow sufficient time for integration of the course programs into their school curriculum, training of teachers, and marketing of the new course program offerings to returning and incoming new students, prior to the beginning of the new school year each fall. If there is a significant delay by a school in making the decision to integrate our course programs, and such decision is not made by August, our course program revenues from that school will likely be delayed for a year or more, which can make it difficult for us to predict these revenues in any given year.

Once a school decides to adopt one or more of our course programs, our revenues are further affected by our ability to roll out these programs in the school in a timely manner. Each roll-out involves several important steps, including assessing and improving the educational institution's infrastructure to ensure that it can support our computer-based testing and course materials and training a sufficient number of teachers to be able to offer the course programs. For our most basic single course programs, this process can usually be completed in a matter of days, but for more complicated course programs and for degree major course programs, it can take several months or more before the programs will be ready for introduction into the school's curriculum.

*Our ability to add new course programs to existing educational institution clients.* Because of the nature of school enrollment generally, we often generate revenues quickly in the first several years following introduction of our single course and degree major course programs in a particular educational institution. For example, if we offer a three-year degree program, we may experience fast initial growth in the number of students in the first year, second year and third year the educational institution offers the program as we move from offering the program to one class year to offering it to students in all three class years. However, starting in the fourth year after the initial introduction of the program in the school's curriculum, we may experience a leveling off, or decline, in the number of students enrolled in the course as new first-year student enrollments will be offset by graduated students. Thus, our ability to continue introducing new course programs to existing educational institution clients is a significant factor in driving revenue growth from each individual educational institution.

*Our ability to secure rights from IT vendors.* Our degree major and single course programs are more attractive if they offer skills or certifications from well-known international and domestic IT vendors. We believe that such IT vendors typically offer certification programs for skills that are readily marketable, which provides students that acquire such skills and certifications with advantages in the job market. As a result, we are able to charge educational institutions higher licensing fees per student for course content and certifications provided by well-known IT vendors.

### **Test Preparation Solutions**

We derive test preparation solutions revenues from the sale of teacher training software products and online test preparation services. We historically also generated some revenues from sales of software to schools to conduct computer-based exercises and tests. Test preparation solutions accounted for 0.5%, 11.9%, 0.1% and 28.4% of our total net revenues for the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2006 and 2007, respectively.

*NTET Tutorial Platform.* We offer, through independent sales agents, our NTET Tutorial Platform software, which comprises a comprehensive set of training materials for preparing teachers for certification under the NTET test. We began offering our NTET Tutorial Platform in November 2006. We sell all title and distribution rights to the distributor upon delivery. We do not provide upgrades or any additional post-contract services, which are the responsibility of the sales agents who sell or otherwise dispose of our NTET Tutorial Platform. We recognize this revenue upon delivery of the software and once collectibility is reasonably assured. We expect seasonal fluctuations in the sales of these software products

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because we typically negotiate with our independent sales agents the right to distribute our software on a provincial basis in the quarters ending March 31 and June 30 of each fiscal year. Sales of our NTET Tutorial Platform accounted for 92.5% of our test preparation solutions revenues in the six months ended September 30, 2007.

*Online test preparation services.* ATA Online provides online test preparation for professional licensure and certification tests delivered through our testing platform for the Securities Association of China, the China Futures Association and the China Banking Association. Revenues from online test preparation services are generated by selling online point cards to end users directly or through distributors on a consignment basis. The online point cards entitle end users to unlimited use of online mock testing during a specified service period, which normally ranges from 90 to 180 days from the activation of the online point cards. Sales proceeds from the online point cards, net of the discounts granted to distributors, are recognized on a straight-line basis ratably over the service period commencing at the point of time the card is activated as online test preparation service fees. If the cards sold to end users are not activated before the expiration date, all online service fees received will be recognized on the expiration date. ATA Online is not contractually obligated to accept, nor has it historically accepted, returns from end users.

### **Significant Factors Affecting Test Preparation Solutions**

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

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

### **Other Revenue**

We derive other revenues from licensing fees paid to us by operators of our ATA authorized test centers, issuance of certificates delivered to passing candidates, test content creation services, teacher training, sales of educational compact discs and textbooks, sales of testing peripherals, and other fees and services. Our other revenues accounted for 22.3%, 8.7%, 9.2% and 5.6% of our total net revenues for the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2006 and 2007, respectively.

*Licensing fees from ATA authorized test centers.* We have established our nationwide network of ATA authorized test centers by contracting with qualified independent operators that act as ATA

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authorized test centers for us. Under our contracts with test center operators, we license our ATA name and ATA E-testing platform technology and provide ongoing technical support, upgrades and training during the contract period in exchange for license fees. Each test center is obligated to provide testing venues, computers with Internet access for use as testing terminals, other testing equipment and test monitoring services as specified by us. We have ongoing obligations to provide technical support and system upgrades during the licensing period. Although we generate a small but steady stream of licensing revenue from test center operators, we view our network of ATA authorized test centers primarily as a channel for the nationwide delivery of our tests, which is an important consideration for many of our test sponsor clients, as well as a means to build our brand by placing ATA signage in our numerous test centers across China. We do not provide loan guarantees, asset pledges or any other financial support to the ATA authorized test centers.

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

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

*Test content creation services.* Our test content creation services include the installation of our technology on client testing platforms, the conversion of paper-based tests into computer-based tests, and other related services. We build test items for computer-based tests using our advanced testing technologies and we license our testing technologies to clients to enable them to create and administer their own tests. We have also developed other advanced testing technologies for creating sophisticated computer-based tests. We generate revenues from our test content creation services through service fees charged to governmental agencies, IT vendors and other sponsors of licensure, certification and qualification tests. We recognize revenue from our test content creation services upon the acceptance of the services by the client.

*Teacher training services.* Through our teacher training services, we organize training events for teachers to improve their understanding of our course program content and our E-testing platform as used in the context of our degree major and single course programs. We charge schools a fixed price per teacher attending our training sessions, which typically take one week to complete. For course content training, we generally outsource the training presentation to the IT vendors that provided the content for the specific course program, or to college professors or other instructors or trainers with expertise in the course program subject matter. We recognize revenue from teacher training services upon completion of the services, which usually occurs within several weeks.

*Educational compact discs and textbooks.* We do not market our educational materials, such as compact discs and textbooks, separately from the course programs to which they relate. However, our clients, mainly educational institutions, may request additional copies of course program compact discs and textbooks to replace those lost by students or to provide additional copies for instructors. We recognize revenue from sales of educational compact discs and textbooks upon receiving cash payment at delivery.

*Other fees and services.* From time to time and as requested by our clients, we may perform certain IT consulting or system integration work for our test sponsor clients. These are typically short one-time contracts from which we recognize revenue upon completion of the services, which usually occurs within a short period of time. We also, from time to time, receive revenue from content providers for our test-based educational services course programs in the form of marketing fees charged to these content

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providers to host conferences and events to promote the course programs. We recognize revenue from these marketing fees upon receiving cash payment.

### **Cost of Revenues**

Our cost of revenues consists primarily of royalty fees, payroll compensation, the cost of inventory sold and test delivery monitoring costs, all of which are directly attributable to the provision of our testing services, test-based educational services, test preparation solutions and our other products and services. The following table shows our cost of revenues and gross profit for the periods indicated:

	For the Fiscal Year Ended March 31,				For the Six Months Ended September 30,				
	2006		2007		2006		2007		
	RMB	%	RMB	%	RMB	%	RMB	\$	%
	(In thousands, except for percentages)								
Net revenues	69,037	100.0%	84,881	100.0%	32,368	100.0%	76,248	10,176	100.0%
Cost of revenues	33,988	49.2%	41,102	48.4%	18,750	57.9%	32,777	4,374	43.0%
Gross profit	35,049	50.8%	43,779	51.6%	13,618	42.1%	43,471	5,802	57.0%

#### ***Royalty Fees***

The largest component of our cost of revenues is attributable to royalty fees paid to IT vendors for the use of their proprietary content in our course programs and our computer-based tests. We pay substantially all of these royalty fees under an enrollment model, whereby royalty fees are determined based on the number of students who enroll in the course. Under limited circumstances, an IT vendor may also charge an annual royalty cost regardless of the number of students enrolled in, or that take the final test for, the course.

#### ***Payroll Compensation***

The second largest component of our cost of revenues relates to payroll compensation. Payroll consists of base salary and related welfare benefits paid to staff in our services implementation and customer support departments.

#### ***Cost of Inventory Sold***

Our cost of inventory sold is comprised of printed learning material that are pre-printed by third parties and that we record as inventory. When a school contracts with us for degree major and single course programs, we deliver the related compact discs and textbooks and other course materials prior to the start of the course programs. Cost of inventory is recognized on a first-in-first-out basis.

#### ***Test Delivery Monitoring Costs***

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

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

Our gross margin is affected by changes in our net revenues and cost of revenues. Our net revenues are determined by the number of schools or IT vendors to which we provide services, the number of test sponsors we provide testing services to and the number of test takers per test title, the amount of software products we sell and the number of test preparation users that purchase our online point cards, as well as by the amounts we can charge for our services. Our cost of revenues are affected by the size of, and increases or decreases in, royalty payments to IT vendors and other content providers for our course



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programs. Degree major and single course program licensing fees are subject to mutual negotiation between us and the content providers. While we may be able to negotiate better royalty fees with some content providers as our business grows larger, we may also experience cases where content provider licensing fees may increase. For example, we may need to pay larger-than-average license fees for the right to create new, or update existing, course program titles for more popular IT career paths and technologies. These licensing fees may also increase over time, but we may feel compelled to continue providing these course programs to schools, despite increasing costs, in order to support existing degree major course programs and course offerings at various schools.

Our gross margin is also affected by the mix of our service offerings. For example, the introduction of test preparation solutions such as our NTET Tutorial Platform and ATA Online's online test preparation services in November 2006, which both involve relatively low direct costs of service, contributed to our higher gross margin in the fiscal year ended March 31, 2007 and the six months ended September 30, 2007. Our gross margin will, in part, be affected by how successful we are in increasing the proportion of our revenues derived from services that have a lower direct cost of service.

In addition, our cost of revenues is recognized as incurred, typically at the beginning of the revenue recognition period. Therefore, a significant amount of our degree major course program revenues is recognized ratably over the course period or school year while related costs are generally incurred up front. We expect our gross margin to fluctuate from quarter to quarter due to this cost recognition policy. We expect gross margin to be lower in the quarters ending September 30 and March 31 of each fiscal year as these are times when school starts, educational materials are distributed to the schools and we recognize the majority of our course program costs.

### **Operating Expenses**

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

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

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

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

Our sales and marketing expenses consist primarily of sales commissions paid to our sales personnel, cost of hosting conferences, advertising expense, travel and entertainment expenses, salaries and benefits for our sales and marketing personnel, and other sales and marketing expenses.

#### ***General and Administrative Expenses***

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

### **Taxation**

Under the current laws of the Cayman Islands and the British Virgin Islands, neither we nor ATA BVI is subject to tax on its income or capital gains. In addition, payment of dividends by either company is not subject to withholding tax in those jurisdictions.

Until December 31, 2007, our subsidiaries incorporated in China, ATA Testing and ATA Learning, were governed by the PRC Enterprise Income Tax Law for Foreign-Invested Enterprises and



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Foreign Enterprises. Our affiliated PRC entity, ATA Online, was subject to the PRC Enterprise Income Tax Provisional Regulations. Under those laws and regulations, foreign-invested enterprises, such as ATA Testing and ATA Learning, and domestic Chinese companies, such as ATA Online, were generally subject to enterprise income tax at a statutory rate of 33% (30% national income tax plus 3% local income tax). However, ATA Testing and ATA Learning have enjoyed preferential tax treatments provided by local and national Chinese tax authorities. In addition, under the PRC Enterprise Income Tax Law for Foreign-Invested Enterprises and Foreign Enterprises, dividends paid to us by ATA Testing and ATA Learning were exempt from withholding tax. As foreign-invested productive enterprises and new technology enterprises located in Beijing, ATA Testing and ATA Learning were given tax incentives that have the effect of (i) exempting the company from enterprise income tax for their first three tax years following establishment; (ii) providing the company a reduced enterprise income tax rate of 7.5% for the fourth through sixth tax years following establishment; and (iii) providing the company a preferential enterprise income tax rate of 15% for tax years thereafter. ATA Testing, established in 1999, enjoyed a preferential enterprise income tax rate of 15% for the taxable year 2007, while ATA Learning was exempted from enterprise income tax for the tax years 2003, 2004 and 2005 and enjoyed a 7.5% enterprise income tax rate for the years 2006 and 2007.

On March 16, 2007, the National People's Congress of China enacted a new Enterprise Income Tax Law, or New EIT Law, and in December 2007, the State Council promulgated the implementing rules of the New EIT Law, both of which became effective on January 1, 2008. Unlike the Income Tax Law for Foreign-Invested Enterprises and Foreign Enterprises, the New EIT Law does not specifically exempt withholding tax on dividends paid by foreign-invested enterprises to foreign investors. The implementing rules of the New EIT Law set the rate of such withholding tax at 10%. The ultimate withholding tax rate on dividends is subject to reduction by applicable tax treaty between the PRC and the tax residence of the foreign investor. We are actively monitoring the withholding tax on dividends and are evaluating appropriate organizational changes to minimize any unfavorable tax consequences, to the extent practicable.

In addition, the New EIT Law imposes a unified enterprise income tax rate of 25% on all domestic enterprises and foreign-invested enterprises unless they qualify for certain tax incentives. Under the New EIT Law, enterprises that were established and already enjoyed preferential tax treatments before March 16, 2007 will continue to enjoy them (1) in the case of reduced tax rates, for a period of five years from January 1, 2008, or (ii) in the case of fixed-term tax holidays, until the expiration of such term, subject to certain phase-out rules. Under the phase-out rules, ATA Testing is expected to be subject to a reduced 18% enterprise income tax rate for the taxable year 2008, a 20% rate for 2009, a 22% rate for 2010, a 24% rate for 2011, and a normal 25% rate from 2012 onwards. ATA Learning is expected to be subject to a reduced 7.5% enterprise income tax rate for the taxable year 2008, and the same tax rates as those applicable to ATA Testing from 2009 onwards. The New EIT Law permits certain "high-technology enterprises" to enjoy a reduced 15% enterprise tax rate. If ATA Testing and ATA Learning qualify as high-technology enterprises and are eligible for preferential tax treatments under the New EIT Law during the phase-out period of their current tax preferential treatment, they may be allowed to choose the more favorable treatment between the phase-out treatment and the 15% reduced-rate treatment under the New EIT Law. Neither the New EIT Law nor its implementing rules specify the qualification criteria. Pending promulgation of the qualification criteria, which are yet to be formulated by the finance and tax authorities of the State Council, we cannot assure you that ATA Testing or ATA Learning will qualify as high-technology enterprises under the New EIT Law.

Under applicable Chinese tax laws, foreign-invested enterprises and domestic Chinese companies may carry forward losses up to five years. As a result of accumulated operating losses by our PRC subsidiaries, and our affiliated PRC entity, as of March 31, 2007, we had RMB15.6 million (\$2.1 million), respectively, in gross operating loss carryforwards that could be used to offset taxable income in future tax years.

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

### **Critical Accounting Policies**

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

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

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

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

### **Revenue Recognition**

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

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

*Determination of single course program service period.* Some of our current single course program contracts do not have a fixed contract term. Upon commencement of a single course program that does not have a definitive term, we estimate, based on our historical experience, the percentage of contracts that will be completed within 12 months, and recognize revenue for such contracts on a straight-line basis over a period of five months, which is the expected service period, based on our historical

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experience of the average length of the course period and our regular evaluation of such estimate. Such estimate is consistent with our understanding of educational institutions' course schedules. If the course program service period for revenue recognition increased or decreased by one month, our net revenues from course programs in the fiscal year ended March 31, 2007 would not have been significantly impacted.

*Determination of single course program deferred revenue.* For the percentage of single course program contracts that are not expected to be completed within 12 months, we do not recognize revenue until the course is completed or we otherwise obtain confirmation from the school that we no longer have any future obligation. Based on historical trend analysis and our expectation that in the future the number of courses that are not completed within 12 months will gradually decrease, each year we estimate a certain percentage of all new courses started during that year but were not expected to be completed within 12 months. If the actual number of courses that have a delivery period of greater than 12 months is materially higher than our estimate, we may need to revise our revenue deferral policy for future periods. If the percentage of estimated deferred revenue for new courses started during the fiscal year ended March 31, 2007 and not completed within 12 months changed by 10%, our net revenues in the fiscal year ended March 31, 2007 would not have been significantly impacted.

### **Income Taxes**

We assess the likelihood that our net deferred income tax assets will be realized from future taxable income. To the extent that we believe that it is more likely than not that some portion or the entire amount of deferred income tax assets will not be realized, we establish a valuation allowance. In assessing the need for a valuation allowance, we consider all available evidence, including projected future taxable income, tax planning strategies, historical taxable income (losses), and the expiration period of the operating loss carryforwards.

In assessing the realizability of deferred income tax assets, we consider whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or tax carryforwards are utilized. We consider projected future taxable income and tax planning strategies in making this assessment. The largest component of deferred income tax assets is the net operating loss carryforwards generated by ATA Testing. ATA Testing incurred operating losses through 2004. ATA Testing utilized tax loss carryforwards, which were previously provided for, amounting to RMB1.2 million and RMB1.0 million, respectively, in the years ended March 31, 2006 and 2007. We believe that ATA Testing's cumulative operating losses for the three-year period ended March 31, 2006 constituted significant evidence that deferred income tax assets would not be realizable and this evidence outweighed our expectations that ATA Testing would generate future taxable income. Therefore, a valuation allowance of RMB2.3 million has been provided against ATA Testing's deferred income tax assets as of March 31, 2006. The deferred income tax assets of RMB0.4 million recognized on net operating loss generated during the three months ended March 31, 2006 was expected to be recovered within the tax year of 2006, thus no valuation allowance was provided. For the year ended March 31, 2007, we considered the continuous realization of tax loss carryforwards, the marginal cumulative operating losses for the three-year period ended March 31, 2007, the level of non-deductible permanent differences and our expectations of ATA Testing's generation of future taxable income, and concluded that ATA Testing's deferred income tax assets as of March 31, 2007 are more likely than not realizable. Therefore, we released the valuation allowance of RMB1.4 million attributable to ATA Testing's tax loss carryforwards and recognized an income tax benefit in the consolidated statements of operations. The valuation allowance of RMB0.1 million as of March 31, 2007 was provided for the net operating loss carryforwards of ATA Online. Due to the short operating history of ATA Online, we do not believe that its deferred income tax assets are more likely than not realizable and therefore, a full valuation allowance was provided against ATA Online's deferred income tax assets as of March 31, 2007. The amount of the net deferred income tax assets considered realizable as of March 31, 2007 could be reduced in the near term if estimates of future taxable income are reduced.

### ***Allowance for Doubtful Accounts***

We maintain allowances for doubtful accounts for estimated losses resulting from the failure of customers to make required payments. We review the accounts receivable on a periodic basis and make specific allowances when there is doubt as to the collectibility of individual balances. In evaluating the collectibility of individual receivable balances, we consider many factors, including the age of the balance, the customer's past payment history and current credit-worthiness and current economic trends. To date, we have not written-off any customer receivable, although we have recognized provisions for doubtful accounts of RMB0.9 million and RMB0.5 million during the years ended March 31, 2006 and 2007, respectively.

If our assumptions regarding the financial condition of our customers and their ability and willingness to pay us are incorrect, our actual bad debt provisions may be higher than estimated, which could result in a charge against our income and a higher level of allowance for doubtful accounts in the future, either of which could have a material adverse effect on our financial condition and results of operations.

### ***Share-Based Compensation to Employees***

As further described in Note 12 to our Consolidated Financial Statements, we have elected to adopt the Statement of Financial Accounting Standards No. 123-R, "Share-Based Payment," or SFAS 123R. Under SFAS 123R, the cost of all share-based payment transactions are recognized in our consolidated financial statements based on their grant-date fair value over the required period, which is generally the period from the date of grant to the date when the share compensation is no longer contingent upon additional service from the employee, or the vesting period. When no future services are required to be performed by the employee in exchange for an award of equity instruments, and if such award does not contain a performance or market condition, the cost of the award (as measured based on the grant-date fair value of the equity instrument) is expensed on the grant date.

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

We determined the estimated fair value of our employees' share options granted in April 2005, December 2005, May 2006, December 2006 and October 2007 based on retrospective valuations conducted by Sallmanns (Far East) Limited, an independent third-party valuation firm. In determining the per share value of our common shares for purposes of determining the fair value of the options, we considered the guidance prescribed by the AICPA Audit and Accounting Practice Aid "Valuation of Privately-Held-Company Equity Securities Issued as Compensation," or Practice Aid. Specifically, paragraph 16 of the Practice Aid sets forth the preferred types of valuation that should be used. The fair value of our common shares was determined in a two-step process. In the first step, the equity value of our company was determined based on a valuation performed by Sallmanns (Far East) Limited. Sallmanns (Far East) Limited considered both the market approach and income approach to arrive at the fair value of our equity value. Sallmanns (Far East) Limited considered the market approach in the form of guideline company method and in the context of an equity transaction with unrelated third parties in exchange for cash consideration. Due to lack of general consistency in the guideline companies' valuation ratios, Sallmanns (Far East) Limited did not apply any weight to the guideline company to arrive at the fair value of our equity. In accordance with the Practice Aid, because we had an equity transaction in March 2005 with an unrelated party in consideration for cash, we believed this equity transaction established a reference to determine a fair value of our equity value for option grants proximate to this transaction. Therefore, for the valuation of options granted in April 2005, December 2005 and May 2006, which were in the 12-month

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proximity with the March 2005 transaction, income approach (discounted cash flow method) was used with the discount rate referencing the recent equity transaction to arrive at the value of our equity value for these respective grants. For option grants after May 2006, without available reference of an equity transaction, income approach served as the method to determine our equity value. For the October 2007 grant, the fair value of the 391,800 stock options granted was determined by using the binomial option-pricing model with an estimated fair market value of underlying shares of \$9.52 (the mid-point of the estimated range of the initial public offering price of this offering after a discount of 9.16% to account for inherent business risk and lack of marketability).

For the income approach, Sallmanns (Far East) Limited utilized a discounted cash flow method based on our projected cash flows from 2006 through 2011, including the following factors:

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

Sallmanns (Far East) Limited used a weighted average cost of capital, or WACC, of 11.68% as the discount rate to determine the enterprise value in May 2006, which was near a 12-month proximity to an equity transaction with unrelated third parties in exchange for cash consideration. The near-term equity transaction established a fair value basis for us and an implied discount rate of 11.68% in the transaction was resolved to reflect expectations of free cash flows at that point of time. We believe that such discount rate represented the fair value risk perception of the unrelated investors. Our operations had not undergone major changes from the near-term equity transaction to May 2006 and therefore the same discount rate was applied in the May 2006 valuation. Sallmanns (Far East) Limited used a discount rate of 16% to determine the enterprise value of our company in December 2006. There were no equity transactions objectively establishing our discount rate near a 12-month proximity of this issuance and the discount rate was derived using the WACC formula.

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

	<u>May 2006 options</u>	<u>December 2006 options</u>	<u>October 2007 options</u>
Expected volatility of future common share price	57%	56%	43%
Expected dividend rate	—	—	—
Expected term of the options	9.3 years	8.9 years	1.8 years
Risk-free interest rate (per annum)	5.06%	4.66%	4.56%
Estimated fair value of each common share at grant date	\$1.14	\$1.66	\$9.52

We estimate the expected volatility of our future common share price based on the price volatility of the publicly traded common shares of comparable companies in the United States over the most recent period to be equal to the expected option life of our employees' share options. The maturity of the option is estimated based on the contractual terms of our employees' share options. To determine the estimated

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fair value of our share options, we believe that the expected volatility and the fair value of our common shares are the most subjective assumptions, as we are a private company prior to the completion of this offering. The fair value of the 330,400, 250,000 and 391,800 options granted as of May 26, 2006, December 27, 2006 and October 1, 2007 was \$140,800, \$171,500 and \$2,473,437 respectively.

We believe that the increase in the fair value of our common shares between the May 2006 and December 2006 grant date was attributable to the following significant factors and events. We experienced strong growth in testing services and test-based educational services in the fiscal quarter ended December 31, 2006. In addition, we launched our NTET test preparation software and our online service platform in the same quarter. Further, in the same quarter, we hired a new vice president responsible for product and service development. However, the valuation did not increase more significantly because we incurred negative operating cashflows during the period from May to December 2006 and we expected our operating cash flow to remain negative in the fiscal quarter ended March 31, 2007. Finally, new revenue contributors such as test preparation were still in the relatively early stages of development and subject to significant uncertainty which is also reflected in the increased discount rate applied as discussed in the preceding paragraphs.

We believe that the increase in the fair value of our common shares between December 2006 and the present is attributable to the following significant factors and events:

- In January 2007, we underwent an organizational restructuring to realign resources to focus on development of testing services and test-based preparation solutions. In addition, operating resources were realigned to minimize duplicate sales and marketing, research and development and administrative efforts.
- Since June 2007, our test preparation business model has become more mature, developing an established distribution channel, clear pricing structure, stable product and service offerings and support from test sponsors in marketing and distribution.
- Since June 2007, we have experienced and we expect to continue to experience rapid and substantial growth in test volume due to significant new contracts from the China Banking Association, Securities Association of China and Ministry of Culture to test and certify professionals working in their respective industries.

We had 4,052,863 employee share options outstanding, including 2,694,026 immediately exercisable employee share options, as of March 31, 2007. The following table sets out information regarding our outstanding employee share options as of March 31, 2007:

Options Outstanding as of March 31, 2007			Options Exercisable as of March 31, 2007		
Number of Shares	Exercise Price per Share	Remaining Contractual Life	Number of Shares	Exercise Price per Share	Remaining Contractual Life
	(\$)			(\$)	
1,369,863	0.545	6.1 years	1,369,863	0.545	6.1 years
1,312,600	2.263	8.0 years	1,077,288	2.263	8.0 years
790,000	3.600	8.7 years	246,875	3.600	8.7 years
330,400	3.600	9.2 years			
250,000	3.600	9.7 years			
<u>4,052,863</u>	<u>2.134</u>	<u>7.7 years</u>	<u>2,694,026</u>	<u>1.512</u>	<u>7.1 years</u>

For our share options issued in 2005 and 2006, we used an expected volatility that ranged from 56% to 64% and estimated fair values for our common shares that ranged from \$0.89 to \$1.66 per share, resulting in estimated weighted average fair values of \$0.378 and \$0.538 per option, respectively. We recorded non-cash share-based compensation expenses of RMB4.2 million and RMB2.5 (\$0.3 million) million in the fiscal years ended March 31, 2006 and 2007, respectively. As of March 31, 2007, there were



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RMB2.6 million of total unrecognized compensation costs related to non-vested share options. These costs are expected to be recognized over the next four years. Further, in connection with the October 2007 grant of 391,800 options, an additional RMB18.5 million in unrecognized compensation costs are expected to be recognized as compensation expense over the vesting period. Twenty-five percent (25%) of the October 2007 options granted vested on January 1, 2008, while the remaining seventy-five percent (75%) vest ratably at the end of each month over the following 30-month period.

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

### ***Fair Value of Equity Instruments Issued to Third Parties***

On May 23, 2005, as a result of a modification of a note payable and extension of a warrant's maturity, we re-determined the fair value of the warrant to be RMB22.4 million, based on an independent valuation by Sallmanns (Far East) Limited using the Black-Scholes option pricing model. The assumptions used in determining the fair value of the warrant were: expected dividend yield of 0%, risk-free interest rate of 3.35%, maturity life of one year, volatility of 64% and fair value of underlying common shares of \$0.89. We believe that the use of the Black-Scholes option pricing model for the issuance of the warrants in May 2005, in the absence of an exchange of certain rights or privileges which could be valued in direct relation to monetary amounts, was the most appropriate valuation technique. The model was considered to be appropriate to value the issuance of the warrants in May 2005 because of the development of our business model between 2003 and 2005, which provided a more reliable basis upon which to estimate certain key assumptions used, in particular, the long-term growth rate and discount rate. In addition, the existence of unrelated share issuances in March 2005 to third parties in exchange for cash consideration provided a basis to correlate the enterprise value underlying the Black-Scholes model to that implicit in the issuance of warrants for cash. The warrant was exercised in full in June 2006.

Changes in our estimates and assumptions regarding the expected volatility and valuation of our common shares could have significantly impacted the estimated fair values of the warrant determined under the Black-Scholes option pricing model and, as a result, our net loss and the net loss applicable to our common shareholders for the fiscal years ended March 31, 2006.

### **Results of Operations**

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

	<b>For the Fiscal Year Ended March 31,</b>				<b>For the Six Months Ended September 30,</b>					
	<b>2006</b>		<b>2007</b>		<b>2006</b>		<b>2007</b>			
	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>%</b>	<b>RMB</b>	<b>\$</b>	<b>%</b>	
	<b>(In thousands, except for percentages and per share data)</b>									
<b>Net revenues:</b>										
Testing services	18,170	26.3%	24,628	29.0%	10,622	32.8%	29,472	3,933	38.6%	
Test-based educational services	35,138	50.9%	42,804	50.4%	18,749	57.9%	20,891	2,788	27.4%	
Test preparation solutions	340	0.5%	10,076	11.9%	5	0.1%	21,632	2,887	28.4%	
Other	15,389	22.3%	7,373	8.7%	2,992	9.2%	4,253	568	5.6%	
<b>Total net revenues</b>	<b>69,037</b>	<b>100.0%</b>	<b>84,881</b>	<b>100.0%</b>	<b>32,368</b>	<b>100.0%</b>	<b>76,248</b>	<b>10,176</b>	<b>100.0%</b>	
Cost of revenues	33,988	49.2%	41,102	48.4%	18,750	57.9%	32,777	4,374	43.0%	
<b>Gross profit</b>	<b>35,049</b>	<b>50.8%</b>	<b>43,779</b>	<b>51.6%</b>	<b>13,618</b>	<b>42.1%</b>	<b>43,471</b>	<b>5,802</b>	<b>57.0%</b>	



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	For the Fiscal Year Ended March 31,				For the Six Months Ended September 30,					
	2006		2007		2006		2007			
	RMB	%	RMB	%	RMB	%	RMB	\$	%	
(In thousands, except for percentages and per share data)										
Operating expenses:										
Research and development	4,854	7.0%	9,322	11.0%	4,018	12.4%	5,286	706	6.9%	
Sales and marketing	12,263	17.8%	22,029	26.0%	10,843	33.5%	12,094	1,614	15.8%	
General and administrative	19,023	27.6%	32,024	37.7%	12,316	38.1%	17,355	2,316	22.8%	
Total operating expenses	<u>36,140</u>	<u>52.4%</u>	<u>63,375</u>	<u>74.7%</u>	<u>27,177</u>	<u>84.0%</u>	<u>34,735</u>	<u>4,636</u>	<u>45.5%</u>	
<b>(Loss) income from operations</b>	<b>(1,091)</b>	<b>(1.6%)</b>	<b>(19,596)</b>	<b>(23.1%)</b>	<b>(13,559)</b>	<b>(41.9%)</b>	<b>8,736</b>	<b>1,166</b>	<b>11.5%</b>	
Equity in net losses of affiliates	(561)	(0.8%)	(187)	(0.2%)	(320)	(1.0%)	—	—	—	
Gain from sale of an affiliate	—	—	—	—	—	—	2,837	379	3.7%	
Gain from liquidation of an affiliate	—	—	1,509	1.8%	1,509	4.7%	988	132	1.3%	
Interest income	332	0.5%	600	0.7%	349	1.1%	270	36	0.3%	
Interest expense	(22,713)	(32.9%)	—	—	—	—	—	—	—	
Loss from revaluation of preferred share warrant	(211)	(0.3%)	—	—	—	—	—	—	—	
Foreign currency exchange losses, net	(1,050)	(1.5%)	(909)	(1.1%)	(519)	(1.6%)	(186)	(25)	(0.2%)	
(Loss) income before income tax	<u>(25,294)</u>	<u>(36.6%)</u>	<u>(18,583)</u>	<u>(21.9%)</u>	<u>(12,540)</u>	<u>(38.7%)</u>	<u>12,645</u>	<u>1,688</u>	<u>16.6%</u>	
Income tax benefit (expense)	485	0.7%	1,793	2.1%	683	2.1%	(4,115)	(550)	(5.4%)	
<b>Net (loss) income</b>	<b><u>(24,809)</u></b>	<b><u>(35.9%)</u></b>	<b><u>(16,790)</u></b>	<b><u>(19.8%)</u></b>	<b><u>(11,857)</u></b>	<b><u>(36.6%)</u></b>	<b><u>8,530</u></b>	<b><u>1,138</u></b>	<b><u>11.2%</u></b>	
Accretion of Series A redeemable convertible preferred shares to redemption value	(13,889)		—		—		—	—		
Foreign currency exchange translation adjustment on Series A redeemable convertible preferred shares	3,269		—		—		—	—		
<b>Net (loss) income (applicable) available to common shareholders</b>	<b><u>(35,429)</u></b>		<b><u>(16,790)</u></b>		<b><u>(11,857)</u></b>		<b><u>8,530</u></b>	<b><u>1,138</u></b>		

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	For the Fiscal Year Ended March 31,				For the Six Months Ended September 30,				
	2006		2007		2006		2007		
	RMB	%	RMB	%	RMB	%	RMB	\$	%
	(In thousands, except for percentages and per share data)								
Basic (loss) earnings per common share	(2.16)		(0.82)		(0.61)		0.39	0.05	
Diluted (loss) earnings per common share	(2.16)		(0.82)		(0.61)		0.23	0.03	

### Six Months Ended September 30, 2007 Compared to Six Months Ended September 30, 2006

#### **Net Revenues**

Our total net revenues increased by RMB43.9 million, or 135.6%, to RMB76.2 million (\$10.2 million) in the six months ended September 30, 2007 from RMB32.4 million in the six months ended September 30, 2006, primarily as a result of increases in revenues from our testing services and significant sales of our NTET Tutorial Platform, which was launched in November 2006. Our test preparation solutions revenue increased to RMB21.6 million (\$2.9 million) in the six months ended September 30, 2007 from RMB5,000 in the six months ended September 30, 2006.

*Testing services.* Testing services revenues increased by RMB18.9 million, or 177.5%, to RMB29.5 million (\$3.9 million) in the six months ended September 30, 2007 from RMB10.6 million in the six months ended September 30, 2006. This increase was primarily driven by test delivery revenue, which increased by RMB18.8 million, or 188.9%, to RMB28.7 million (\$3.8 million) in the six months ended September 30, 2007 from RMB9.9 million in the six months ended September 30, 2006. The total number of tests delivered increased to 2,065,249 in the six months ended September 30, 2007 from 2,004,640 in the six months ended September 30, 2006. Our average revenue per test delivered also increased to RMB14.3 (\$1.9) in the six months ended September 30, 2007 from RMB5.3 in the six months ended September 30, 2006. This increase in both the average revenue per test and the number of tests delivered was due, in part, to a significant increase in the number of finance industry-related tests delivered, which tests also have a higher than average revenue per test. Our net revenues from the China Banking Association, the Securities Association of China and the China Futures Association grew to an aggregate of RMB19.5 million (\$2.6 million) in the six months ended September 30, 2007 from RMB1.2 million in the six months ended September 30, 2006. The number of tests delivered for these three clients increased to 334,869 in the six months ended September 30, 2007 from 32,333 tests in the six months ended September 30, 2006. We expect growth from testing services revenues to continue to increase, driven significantly by increases in the volume of finance industry-related tests and the introduction of new test titles for the finance industry and other clients.

*Test-based educational services.* Revenues from test-based educational services increased by RMB2.1 million, or 11.4%, to RMB20.9 million (\$2.8 million) in the six months ended September 30, 2007 from RMB18.7 million in the six months ended September 30, 2006. This increase was driven by increases in revenues from single course programs and pre-occupational training programs. Single course program revenue increased RMB1.6 million, or 64.0%, to RMB4.1 million (\$0.5 million) in the six months ended September 30, 2007 from RMB2.5 million in the six months ended September 30, 2006. We experienced an increase of 47.8% in the number of student-months for single course programs to 101,603 in the six months ended September 30, 2007 from 68,740 in the six months ended September 30, 2006, while the effective average price of our single course programs increased by 11.1% to RMB40.1 (\$5.4) in the six months ended September 30, 2007 from RMB36.1 in the six months ended September 30, 2006 due to a higher contribution to revenues from higher-priced single course programs in the six months ended September 30, 2007. Pre-occupational training program revenues increased to RMB1.4 million (\$0.2 million) in the six months ended September 30, 2007 from RMB0.4 million in the six months ended September 30, 2006 as a result of an increase in the number of students participating in these programs. Increases in revenues from our single course programs and pre-occupational programs were partially offset

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by a decrease of RMB0.5 million, or 3.1%, in revenues from our degree major course program to RMB15.4 million (\$2.1 million) in the six months ended September 30, 2007 from RMB15.9 million in the six months ended September 30, 2006. The number of degree major student-months decreased 8.1% to 198,178 in the six months ended September 30, 2007 from 215,650 in the six months ended September 30, 2006, while the average price per student-month of our degree major course programs increased by 5.6% to RMB77.9 from RMB73.8 during the same periods. The decrease in the degree major student-months was due primarily to an increasing number of students graduating from our existing degree major course programs not being fully offset by new student intake into the programs. We anticipate stable growth from our test-based education services as we offer more degree major course programs with licensed content from Tsinghua University and as pre-occupational training programs become more popular, as partially offset by an increase in the number of students that graduate from our current degree major course programs.

*Test preparation solutions.* Our revenues from test preparation solutions increased to RMB21.6 million (\$2.9 million) in the six months ended September 30, 2007 from RMB5,000 in the six months ended September 30, 2006, primarily as a result of rapid increases in the sales of our NTET Tutorial Platform and our online test preparation services. Sales of our NTET Tutorial Platform contributed RMB20.0 million, or 92.5%, of our test preparation solutions revenues in the six months ended September 30, 2007. We believe that sales of our NTET Tutorial Platform will continue to accelerate as more teachers plan to complete their qualification tests in the coming years and as more schools purchase our NTET Tutorial Platform to help teachers prepare for the test. Revenues from our online test preparation services for finance industry-related tests accounted for the remainder of our test preparation solutions revenue in the six months ended September 30, 2007. We expect our online test preparation services revenues to increase as increasing numbers of banking and securities industry professionals and test takers use our online services to prepare for their licensure tests or to satisfy their continuous professional training requirements as required by industry rules.

Other revenue increased by RMB1.3 million, or 42.1%, to RMB4.3 million (\$0.6 million) in the six months ended September 30, 2007 from RMB3.0 million in the six months ended September 30, 2006, primarily due to a significant increase in revenues from test content creation services. We expect other revenue to continue to grow in the future as growth in testing services and test-based educational services continues to drive demand for our ancillary services for which we charge service fees.

### **Gross Profit**

Our gross profit increased by RMB29.9 million to RMB43.5 million (\$5.8 million) in the six months ended September 30, 2007 from RMB13.6 million in the six months ended September 30, 2006. Our gross margin increased to 57.0% in the six months ended September 30, 2007 from 42.1% in the six months ended September 30, 2006. This increase in our gross margin was principally due to the significantly higher gross margins of our NTET Tutorial Platform and ATA Online's online test preparation services, both of which were introduced in November 2006 and have a much lower cost structure relative to our testing services and test-based educational services. These test preparation services contain a much lower relative cost structure because they do not require us to pay royalty fees to content providers and the operation of an Internet-based delivery platform does not require high marginal operating costs. Offsetting this was an increase in our test monitoring costs, due principally to higher monitoring costs related to the initial national banker licensure tests that we delivered. We expect that our cost of revenues related to our revenues from test sponsors, educational institutions and test preparation customers will remain stable or increase slightly, but at a slower rate than the overall growth of our revenues as we increase our test preparation revenues and enjoy the operating economies of scale from test delivery services.

### **Operating Expenses**

Our operating expenses increased by RMB7.5 million, or 27.8%, to RMB34.7 million (\$4.6 million) in the six months ended September 30, 2007 from RMB27.2 million in the six months

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ended September 30, 2006, primarily resulting from a substantial increase in our general and administrative expenses. In connection with our grant of share options to certain employees in October 2007, we expect to incur operating expenses of RMB17.6 million (\$2.3 million) over the vesting schedule of the options. Twenty-five percent (25%) of the October 2007 options granted vested on January 1, 2008, while the remaining seventy-five percent (75%) vest ratably at the end of each month over the following 30-month period.

*Research and development expenses.* Our research and development expenses increased by RMB1.3 million, or 31.6%, to RMB5.3 million (\$0.7 million) in the six months ended September 30, 2007 from RMB4.0 million in the six months ended September 30, 2006. This increase was due primarily to increases in salaries and other compensation expenses relating to our research and development professionals. Research and development expenses as a percentage of our total net revenues decreased significantly during this period. We expect our research and development expenses in future periods to rise steadily but to continue to decrease as a percentage of our total revenues, as we do not expect to utilize outsourced development of new course content for test-based educational services to the same extent as we have in the past.

*Sales and marketing expenses.* Our sales and marketing expenses increased by RMB1.3 million, or 11.5%, to RMB12.1 million (\$1.6 million) in the six months ended September 30, 2007 from RMB10.8 million in the six months ended September 30, 2006. Sales and marketing expenses as a percentage of our total net revenues decreased to 15.9% in the six months ended September 30, 2007 from 33.5% in the six months ended September 30, 2006. This percentage decrease was primarily related to our increase in revenues from testing services and test preparation solutions, as business development activities for testing services and test preparation solutions require less sales and marketing outlays compared to business development activities for test-based educational services. We expect that our sales and marketing expenses will increase in the near term as we increase our incentive pay to our sales team, increase our sales efforts, hire additional sales personnel, target new educational institution clients and initiate additional marketing programs to build our "ATA" brand. However, we expect that the rate of growth in our overall revenues will continue to outpace the rate of growth in our sales and marketing expenses.

*General and administrative expenses.* Our general and administrative expenses increased by RMB5.0 million, or 40.9%, to RMB17.3 million (\$2.3 million) in the six months ended September 30, 2007 from RMB12.3 million in the six months ended September 30, 2006. This increase was primarily due to an increase of RMB2.4 million in certain professional fees which we incurred in connection with our preparation for operating as a publicly listed company and an increase of RMB1.3 million related to the hiring of new management staff. Although our general and administrative expenses increased significantly over this period, general and administrative expenses as a percentage of our total net revenues decreased to 22.8% in the six months ended September 30, 2007 from 38.0% in the six months ended September 30, 2006. We expect our general and administrative expenses to continue to increase as we hire additional personnel and incur expenses to support our operations as a U.S. publicly traded company, including compliance-related costs. However, we also expect our general and administrative expenses to continue to decrease as a percentage of revenues as we achieve greater efficiency in our operations.

### ***Equity in Net Loss of an Affiliate***

Our equity in income of affiliates was nil in the six months ended September 30, 2007, compared with loss in affiliates of RMB0.3 million in the six months ended September 30, 2006, all of which derived from our 40% equity interest in Wendu Education, which was sold during the six months ended September 30, 2007.

### ***Gain from Sale of an Affiliate***

We sold 100% of our equity interest in Wendu Education during the six months ended September 30, 2007 and recognized RMB2.8 million (\$0.4 million) in income in relation to the sale.

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### ***Gain from Liquidation of an Affiliate***

We recognized a gain in relation to proceeds received upon completion of the liquidation of ATA Jiangsu of RMB1.5 million and RMB1.0 million (\$0.1 million) for the six months ended September 30, 2006 and 2007, respectively.

### ***Interest Income***

Our interest income was RMB0.3 million (\$36,048) in the six months ended September 30, 2007 and RMB0.3 million in the six months ended September 30, 2006. Our interest income was slightly lower in the six months ended September 30, 2007 largely as a result of a decrease in cash balance in higher interest earning U.S. dollar bank accounts offset by an overall higher cash balance.

### ***Foreign Currency Exchange Losses, Net***

Our net foreign currency exchange losses decreased to RMB0.2 million (\$24,864) in the six months ended September 30, 2007 from RMB0.5 million in the six months ended September 30, 2006 primarily due to a decrease in our U.S. dollar assets offset by the effect of the appreciation of the Renminbi versus the U.S. dollar during 2006 and 2007.

### ***Income Tax Benefit (Expense)***

We had an income tax expense of RMB4.1 million (\$0.5 million) in the six months ended September 30, 2007, compared with an income tax benefit of RMB0.7 million in the six months ended September 30, 2006. Our effective tax rate increased from 5.4% in the six months ended September 30, 2006 to 32.5% in the six months ended September 30, 2007. This increase was mainly due to the fact that we turned from a loss before income tax in the six months ended September 30, 2006 to a profit before income tax in the six months ended September 30, 2007 and the impact from non-tax-deductible expenses, which decrease the income tax benefit in loss-making periods and increase the income tax expenses in profit-making periods.

The tax holiday increased the actual income tax benefit by RMB0.2 million and decreased the actual income tax expense by RMB0.2 million for the six months ended September 30, 2006 and 2007, respectively. The effect of the tax holiday on basic earnings per common share for the six months ended September 30, 2006 and 2007 were RMB0.009 and RMB0.011, respectively. The effect on diluted earnings per common share of the tax holiday for the six months ended September 30, 2006 and 2007 were RMB0.009 and RMB0.006, respectively.

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

As a result of the above factors, we had net income of RMB8.5 million (\$1.1 million) in the six months ended September 30, 2007 as compared to a net loss of RMB11.9 million in the six months ended September 30, 2006.

The basic (loss) earnings per common share were RMB(0.61) and RMB0.39 for the six months ended September 30, 2006 and 2007, respectively. The diluted (loss) earnings per common share were RMB(0.61) and RMB0.23 for the six months ended September 30, 2006 and 2007, respectively. The Company's dilutive common equivalent shares for the six months ended September 30, 2006 and 2007 consisted of 920,119 and 3,118,875 common shares issuable upon exercise of outstanding share options, respectively (using the treasury stock method), 2,294,549 and 516,576 common shares issuable upon exercise of warrants, respectively (using the treasury stock method), and 11,593,077 and 11,730,554 common shares issuable upon the conversion of the convertible preferred shares, respectively (using the as-converted method). These potentially dilutive securities were not included in the calculation of dilutive loss per share for the period ended September 30, 2006 due to their anti-dilutive effect.

## Fiscal Year Ended March 31, 2007 Compared to Fiscal Year Ended March 31, 2006

### **Net Revenues**

Our total net revenues increased by RMB15.9 million, or 22.9%, to RMB84.9 million (\$11.3 million) in the fiscal year ended March 31, 2007 from RMB69.0 million in the fiscal year ended March 31, 2006, largely as a result of significant sales of our NTET Tutorial Platform, which was launched in November 2006. Our test preparation solutions revenue increased to RMB10.1 million (\$1.3 million) in the fiscal year ended March 31, 2007 from RMB0.3 million in the fiscal year ended March 31, 2006, making this our fastest growing source of revenue. Offsetting this increase was a decrease in other revenue from ATA Jiangsu in the fiscal year ended March 31, 2006. We recognized RMB4.4 million from ATA Jiangsu in the fiscal year ended March 31, 2006 and nil in the fiscal year ended March 31, 2007.

*Testing services.* Testing services revenues increased by RMB6.4 million, or 35.5%, to RMB24.6 million (\$3.3 million) in the fiscal year ended March 31, 2007 from RMB18.2 million in the fiscal year ended March 31, 2006. This increase was primarily driven by test delivery revenue that increased by RMB6.4 million, or 37.5%, to RMB23.4 million (\$3.1 million) in the fiscal year ended March 31, 2007 from RMB17.0 million in the fiscal year ended March 31, 2006. The total number of tests delivered increased from 2,583,712 in the fiscal year ended March 31, 2006 to 3,335,701 in the fiscal year ended March 31, 2007. Our average revenue per test delivered also increased to RMB7.0 (\$0.9) in the fiscal year ended March 31, 2007 from RMB6.57 in the fiscal year ended March 31, 2006. This increase in both the average revenue per test and the number of tests delivered was due, in part, to an increase in the number of finance industry-related tests delivered, which tests also have a higher than average per test revenue. In addition, with the recent growth in trading activity in China's securities markets, an increasing number of people took tests to obtain the necessary securities professional licenses. We experienced an increase of 66.6% in volume to 185,156 finance industry-related tests, most of which were related to the securities industry, delivered in the fiscal year ended March 31, 2007, which tests are mainly comprised of securities industry-related tests, which increased to 134,907 test takers in the fiscal year ended March 31, 2007 from 94,359 test takers in the fiscal year ended March 31, 2006. In addition, new tests, such as the NTET test, contributed an additional 93,073 test takers in the fiscal year ended March 31, 2007.

*Test-based educational services.* Revenues from test-based educational services increased by RMB7.7 million, or 21.8%, to RMB42.8 million (\$5.7 million) in the fiscal year ended March 31, 2007 from RMB35.1 million in the fiscal year ended March 31, 2006. This increase was mainly due to an increase in degree major course program revenue. Degree major course program revenue increased RMB6.2 million, or 20.7%, to RMB36.0 million (\$4.8 million) in the fiscal year ended March 31, 2007 from RMB29.8 million in the fiscal year ended March 31, 2006. The number of major student-months increased 16.1% to 465,856 in the fiscal year ended March 31, 2007 from 401,415 in the fiscal year ended March 31, 2006. This growth was a result of an increase in the number of schools offering our degree major course programs to 137 in the fiscal year ended March 31, 2007 from 117 in the fiscal year ended March 31, 2006. Single course program revenue increased RMB0.4 million, or 8.1%, to RMB5.7 million (\$0.8 million) in the fiscal year ended March 31, 2007 from RMB5.3 million in the fiscal year ended March 31, 2006. Although we experienced a 23.8% increase in student-months to 133,562 in the fiscal year ended March 31, 2007 from 107,891 in the fiscal year ended March 31, 2006, the average price of our single course programs declined from RMB49 in the fiscal year ended March 31, 2006 to RMB43 (\$5.7) in the fiscal year ended March 31, 2007. This decrease in the average selling price for our single course programs was due to the launch of a new course program in April 2006 that has a RMB37.0 (\$4.9) fee per student-month. This course program had a lower fee per student-month principally because we did not license third-party course content for this course program. Pre-occupational training program revenues increased to RMB1.1 million (\$0.1 million) in the fiscal year ended March 31, 2007 from RMB7,283 in the fiscal year ended March 31, 2006, as a result of increased marketing of this program in key cities and provinces such as Beijing, Henan and Anhui.



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*Test preparation solutions.* The significant increase in our revenues from test preparation solutions to RMB10.1 million (\$1.3 million) in the fiscal year ended March 31, 2007 from RMB0.3 million in the fiscal year ended March 31, 2006 was mainly a result of the successful launch and sales of over 11,000 copies of our NTET Tutorial Platform in the fiscal quarter ended December 31, 2006. Sales of our NTET Tutorial Platform contributed 98.6% of our test preparation solutions revenues in the fiscal year ended March 31, 2007. This software test preparation product was popular among schools across China as teachers in these schools sought to prepare for the National Teachers' Skill Test of Applied Educational Technology in Secondary and Elementary School qualification test. In November 2006, ATA Online launched online test preparation services, generating revenue of RMB0.1 million (\$17,842) from sales of 4,019 online point cards during the fiscal year ended March 31, 2007.

*Other.* Other revenue declined by RMB8.0 million, or 52.1%, to RMB7.4 million (\$1.0 million) in the fiscal year ended March 31, 2007 from RMB15.4 million in the fiscal year ended March 31, 2006. This was largely due to the ending of recognition of licensing fee revenue from ATA Jiangsu in the fiscal year ended March 31, 2006. Licensing fees from ATA Jiangsu were RMB4.4 million in the fiscal year ended March 31, 2006 as a result of recognition of all remaining deferred revenue resulting from an upfront payment of RMB6.5 million made to ATA Testing in 2002 by ATA Jiangsu. In 2002, ATA Jiangsu made a RMB6.5 million payment to ATA Testing in exchange for assigning ATA Testing's rights and interests in a number of test delivery service contracts to ATA Jiangsu. We initially anticipated that the service contracts would generate revenues and that ATA Testing would provide ancillary services under the contract with ATA Jiangsu for a period of ten years. We therefore deferred revenue recognition of the initial RMB6.5 million payment upon receipt in 2002, and began to recognize the amount into income over a ten-year period on a straight-line basis. However, in 2005, the board of directors of ATA Jiangsu resolved to commence a voluntary winding up of ATA Jiangsu. Therefore, we recognized the remaining deferred revenue into income as ATA Testing had no further obligations to ATA Jiangsu as a result of their voluntary wind-up. In addition, test content creation revenue declined by RMB1.9 million, or 52.8% to RMB1.7 million (\$0.2 million) in the fiscal year ended March 31, 2007 from RMB3.6 million in the fiscal year ended March 31, 2006. This was because a higher percentage of our test content was up to date and did not require any new chargeable test content to be created. Other service fees also decreased by RMB0.5 million to RMB0.3 million (\$39,388) in the fiscal year ended March 31, 2007 from RMB0.8 million in the fiscal year ended March 31, 2006 as the content providers for our test-based educational course programs required less promotional activities during the fiscal year ended March 31, 2007.

### **Gross Profit**

Our gross profit increased by RMB8.8 million, or 24.9%, to RMB43.8 million (\$5.8 million) in the fiscal year ended March 31, 2007 from RMB35.0 million, which included RMB4.4 million in revenue from ATA Jiangsu, in the fiscal year ended March 31, 2006. Our gross margin increased to 51.6% in the fiscal year ended March 31, 2007 from 50.8% in the fiscal year ended March 31, 2006. This increase in our gross margin was primarily due to a decline in the marginal costs required to generate additional revenue. The test preparation services we launched in the fiscal year ended March 31, 2007, including our NTET Tutorial Platform and online test preparation services, contain a much lower cost structure relative to our testing services and test-based educational services because they do not require us to pay royalty fees to content providers and the operation of an Internet-based delivery platform does not require high marginal operating costs. In addition, the decline in our marginal costs was a result of our being able to deliver larger numbers of tests to greater numbers of test takers without significantly increasing our personnel or peripheral costs related to our test delivery services.

### **Operating Expenses**

Our operating expenses increased by RMB27.3 million, or 75.3%, to RMB63.4 million (\$8.5 million) in the fiscal year ended March 31, 2007 from RMB36.1 million in the fiscal year ended March 31, 2006 as a result of substantial increase in our research and development expenses sales and



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marketing expenses and, as well as a less pronounced increase in general and administrative expenses. We believe that our substantial increase in spending on research and development and sales and marketing in the fiscal year ended March 31, 2007 was important to building the foundation for accelerating our future revenue growth, and to achieving and increasing profitability in the future. We also substantially increased our general and administrative spending to enhance the quality of our management team in anticipation of the rapid growth of our business and to prepare to become a U.S. publicly listed company. In connection with our grant of share options to certain employees in October 2007, we expect to incur operating expenses of RMB17.6 million (\$2.3 million) over the vesting schedule of the options. Twenty-five percent (25%) of the October 2007 options granted vested on January 1, 2008, while the remaining seventy-five percent (75%) vest ratably at the end of each month over the following 30-month period.

*Research and development expenses.* Our research and development expenses increased by RMB4.4 million, or 92.1%, to RMB9.3 million (\$1.2 million) in the fiscal year ended March 31, 2007 from RMB4.9 million in the fiscal year ended March 31, 2006. Research and development expenses as a percentage of our total net revenues increased to 11.0% in the fiscal year ended March 31, 2007 from 7.0% in the fiscal year ended March 31, 2006. This increase resulted, in part, from increased average salaries for our research and development personnel, which was offset by a decrease in the number of our in-house research and development personnel from 56 as of March 31, 2006 to 53 as of March 31, 2007. In addition, we incurred additional expenses in connection with the substantial increase in the use of outside technical consultants to develop new content for our test-based educational services in the fiscal year ended March 31, 2007.

*Sales and marketing expenses.* Our sales and marketing expenses increased by RMB9.7 million, or 79.6%, to RMB22.0 million (\$2.9 million) in the fiscal year ended March 31, 2007 from RMB12.3 million in the fiscal year ended March 31, 2006. Sales and marketing expenses as a percentage of our total net revenues increased to 26.0% in the fiscal year ended March 31, 2007 from 17.8% in the fiscal year ended March 31, 2006. This increase resulted primarily from increases in sales commission, entertainment, conferences and travel expenses as we continued to expand our sales and marketing efforts in the fiscal year ended March 31, 2007. In addition, we increased our sales and marketing staff from 70 as of March 31, 2006 to 96 as of March 31, 2007 to intensify our efforts to acquire new clients and contracts in test-based educational services.

*General and administrative expenses.* Our general and administrative expenses increased by RMB13.0 million, or 68.3%, to RMB32.0 million (\$4.3 million) in the fiscal year ended March 31, 2007 from RMB19.0 million in the fiscal year ended March 31, 2006. General and administrative expenses as a percentage of our total net revenues increased to 37.7% in the fiscal year ended March 31, 2007 from 27.6% in the fiscal year ended March 31, 2006. This increase was due to an increase from 44 administrative staff as of March 31, 2006 to 62 administrative staff as of March 31, 2007, including staff increases in our finance and legal departments, and our senior management in product development. This increase also resulted from an increase in IPO-related professional fees from RMB1.2 million in the fiscal year ended March 31, 2006 to RMB9.2 million (\$1.2 million) in the fiscal year ended March 31, 2007.

### ***Gain from Liquidation of an Affiliate***

Our gain from liquidation of an affiliate was RMB1.5 million (\$0.2 million) in the fiscal year ended March 31, 2007 primarily due to a forgiveness of a liability upon the completion of ATA Jiangsu's liquidation on May 10, 2006.

### ***Interest Income***

Our interest income was RMB0.6 million (\$80,060) in the fiscal year ended March 31, 2007, compared with RMB0.3 million in the fiscal year ended March 31, 2006. Our higher interest income in the fiscal year ended March 31, 2007 was attributable to interest earned on higher cash balance deposited with financial institutions.

***Interest Expenses***

Our interest expense was nil in the fiscal year ended March 31, 2007. We incurred RMB22.7 million of interest expense in the fiscal year ended March 31, 2006 due to RMB22.7 million of the loan discount on the RMB19 million note payable to a third party. Under the original loan agreement, the note payable was due, with interest, on April 11, 2004. However, in March 2003, the third-party lender agreed to extend the maturity of the loan to May 2005 and forgive all previously accrued interest on the loan and to waive all future interest on the loan through the date of maturity. In exchange, we issued a warrant to the third party to purchase up to 20% of our common shares. In May 2005, the note payable and warrant were each extended, and the number of common shares the third party was entitled to purchase under the loan was determined to be 5,479,452 shares. In May 2006, ATA Testing repaid the loan in its entirety, and the third-party lender exercised its warrant in full in June 2006. We recognized RMB22.7 million in loan discount in relation to this loan in the fiscal year ended March 31, 2006.

***Foreign Currency Exchange Losses, Net***

Our foreign currency exchange losses, net, decreased to RMB0.9 million (\$0.1 million) in the fiscal year ended March 31, 2007 from RMB1.1 million in the fiscal year ended March 31, 2006 primarily due a decrease in our U.S. dollar assets offset by the effect of the appreciation of the Renminbi versus the U.S. dollar during 2006. We had significant U.S. dollar assets due to the proceeds from our March 2005 sale of our preferred shares. See “— Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Risk.”

***Income Tax Benefit***

We incurred current income tax expenses of nil in the fiscal year ended March 31, 2006 and incurred RMB26,187 (\$3,495) current income tax expenses in the fiscal year ended March 31, 2007. One of our PRC subsidiaries, ATA Learning, was enjoying a tax holiday during the tax year ended December 31, 2005 and a reduced enterprise income tax rate of 7.5% during the tax years ended or ending December 31, 2006 and 2007. The current income tax expense of RMB26,187 was attributable to our PRC operations during the year ended March 31, 2007. Our other PRC subsidiary, ATA Testing, and affiliated PRC entity, ATA Online, had accumulated losses prior to and as of March 31, 2007. ATA Testing utilized tax loss carryforwards, which were previously provided for, amounting to RMB1,185,570 and RMB957,566, respectively, in the years ended March 31, 2006 and 2007. We believe that ATA Testing's cumulative operating losses for the three-year period ended March 31, 2006 constituted significant evidence that deferred income tax assets would not be realizable and this evidence outweighed our expectations that ATA Testing would generate future taxable income. Therefore, a full valuation allowance has been provided against ATA Testing's deferred income tax assets as of March 31, 2006. In the fiscal year ended March 31, 2007, we considered the continuous realization of tax loss carryforwards, the marginal cumulative operating losses for the three-year period ended March 31, 2007, the level of non-deductible permanent differences and our expectations of ATA Testing's generation of future taxable income, and concluded that ATA Testing's deferred income tax assets as of March 31, 2007 are more likely than not realizable. Therefore, we released the valuation allowance of RMB1,391,220 attributable to ATA Testing's tax loss carryforwards and recognized an income tax benefit in the consolidated statements of operations. Without the income tax holiday, the total income tax expense in the fiscal year ended March 31, 2006 would have been RMB58,857.

***Net Loss***

As a result of the above factors, our net loss decreased to RMB16.8 million (\$2.2 million) in the fiscal year ended March 31, 2007 from a net loss of RMB24.8 million in the fiscal year ended March 31, 2006.

***Accretion of Preferred Shares***

We recorded an accretion to the redemption value of our preferred shares in the amount of RMB13.9 million as a reduction to earnings to arrive at net loss applicable to common shareholders in our consolidated statements of operations for the fiscal year ended March 31, 2006. Upon the elimination of the redemption feature on our preferred shares on March 9, 2006, our preferred shares were reclassified to permanent equity and as a result we ceased recording such accretion.

***Foreign Currency Exchange Translation Adjustment on Preferred Shares***

Prior to March 9, 2006, we re-measured the effects of currency exchange rate movements on the carrying value of our preferred shares, which were classified outside of permanent equity since issuance and we recorded a foreign currency exchange loss of RMB3.3 million as a reduction to earnings to arrive at net loss applicable to common shareholders in our consolidated statements of operations for the fiscal year ended March 31, 2006. Upon the elimination of the redemption feature on March 9, 2006, our preferred shares were reclassified to permanent equity and as a result we ceased recording such re-measurement.

***Net Loss Applicable to Common Shareholders***

As a result of the above factors, our net loss applicable to common shareholders decreased to a net loss of RMB16.8 million (\$2.2 million) in the fiscal year ended March 31, 2007 from RMB35.4 million in the fiscal year ended March 31, 2006. Without the income tax holiday, our net loss applicable to common shareholders in the fiscal year ended March 31, 2006 would have further increased to RMB36.0 million.

***Basic and Diluted Loss Per Share Applicable to Common Shareholders***

As a result of the above factors, our basic and diluted loss applicable to common shareholders decreased to RMB0.82 (\$0.11) in the fiscal year ended March 31, 2007 from RMB2.16 in the fiscal year ended March 31, 2006. Without the income tax holiday, our basic and diluted loss per share applicable to common shareholders in the fiscal year ended March 31, 2006 would have further increased to RMB2.19.

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**Quarterly Financial Information**

The following table sets forth condensed consolidated results of operations data, each derived from our unaudited condensed consolidated financial statements for the three-month periods ended on the dates indicated. You should read the following table in conjunction with the audited consolidated financial statements and related notes contained elsewhere in this prospectus.

	For the Three Months Ended							
	December 31, 2006		March 31, 2007		June 30, 2007		September 30, 2007	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)							
<b>Net revenues:</b>								
Testing services	10,875	30.0	3,131	19.3	8,088	30.6	21,384	43.0
Test-based educational services	11,964	33.0	12,091	74.5	10,690	40.4	10,201	20.5
Test preparation solutions	10,022	27.6	49	0.3	5,675	21.4	15,957	32.0
Other	3,427	9.4	954	5.9	2,016	7.6	2,237	4.5
<b>Total net revenues</b>	<b>36,288</b>	<b>100.0</b>	<b>16,225</b>	<b>100.0</b>	<b>26,469</b>	<b>100.0</b>	<b>49,779</b>	<b>100.0</b>
Cost of revenues	10,418	28.7	11,934	73.6	12,717	48.0	20,060	40.3
<b>Gross profit</b>	<b>25,870</b>	<b>71.3</b>	<b>4,291</b>	<b>26.4</b>	<b>13,752</b>	<b>52.0</b>	<b>29,719</b>	<b>59.7</b>
<b>Operating expenses:</b>								
Research and development	2,742	7.6	2,562	15.8	2,551	9.6	2,735	5.5
Sales and marketing	5,597	15.4	5,589	34.4	5,927	22.4	6,167	12.4
General and administrative	10,968	30.2	8,740	53.9	6,539	24.7	10,816	21.7
Total operating expenses	19,307	53.2	16,891	104.1	15,017	56.7	19,718	39.6
<b>Income (loss) from operations</b>	<b>6,563</b>	<b>18.1</b>	<b>(12,600)</b>	<b>(77.7)</b>	<b>(1,265)</b>	<b>(4.7)</b>	<b>10,001</b>	<b>20.1</b>
Equity in income (loss) of an affiliate	170	0.5	(37)	(0.2)	—	—	—	—
Gain from sale of an affiliate	—	—	—	—	—	—	2,837	5.7
Gain from liquidation of an affiliate	—	—	—	—	988	3.7	—	—
Interest income	133	0.3	118	0.7	121	0.4	149	0.3
Foreign currency exchange losses, net	(279)	(0.8)	(111)	(0.6)	(92)	(0.3)	(94)	(0.2)
Income (loss) before income tax	6,587	18.1	(12,630)	(77.8)	(248)	(0.9)	12,893	25.9
Income tax benefit (expense)	316	0.9	794	4.9	(523)	(2.0)	(3,592)	(7.2)
<b>Net income (loss)</b>	<b>6,903</b>	<b>19.0%</b>	<b>(11,836)</b>	<b>(72.9%)</b>	<b>(771)</b>	<b>(2.9%)</b>	<b>9,301</b>	<b>18.7%</b>

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	For the Three Months Ended							
	December 31, 2005		March 31, 2006		June 30, 2006		September 30, 2006	
	RMB	%	RMB	%	RMB	%	RMB	%
	(In thousands, except for percentages)							
Net revenues:								
Testing services	8,152	33.5	2,417	15.5	8,171	38.8	2,451	21.7
Test-based educational services	10,035	41.3	10,196	65.2	11,442	54.4	7,307	64.5
Test preparation solutions	147	0.6	—	—	5	—	—	—
Other	5,988	24.6	3,011	19.3	1,431	6.8	1,561	13.8
<b>Total net revenues</b>	<b>24,322</b>	<b>100.0</b>	<b>15,624</b>	<b>100.0</b>	<b>21,049</b>	<b>100.0</b>	<b>11,319</b>	<b>100.0</b>
Cost of revenues	6,640	27.3	11,183	71.6	8,683	41.3	10,067	88.9
<b>Gross profit</b>	<b>17,682</b>	<b>72.7</b>	<b>4,441</b>	<b>28.4</b>	<b>12,366</b>	<b>58.7</b>	<b>1,252</b>	<b>11.1</b>
Operating expenses:								
Research and development	1,077	4.4	1,767	11.3	1,943	9.2	2,075	18.3
Sales and marketing	3,303	13.6	3,266	20.9	5,195	24.7	5,648	50.0
General and administrative	4,981	20.5	3,567	22.8	5,885	27.9	6,431	56.8
Total operating expenses	9,361	38.5	8,600	55.0	13,023	61.8	14,154	125.1
<b>Income (loss) from operations</b>	<b>8,321</b>	<b>34.2</b>	<b>(4,159)</b>	<b>(26.6)</b>	<b>(657)</b>	<b>(3.1)</b>	<b>(12,902)</b>	<b>(114.0)</b>
Equity in income (losses) of affiliates	108	0.4	(650)	(4.1)	(133)	(0.6)	(187)	(1.6)
Gain from liquidation of an affiliate	—	—	—	—	1,509	7.1	—	—
Interest income	111	0.5	81	0.5	135	0.6	214	1.9
(Loss) gain from revaluation of preferred share warrant	(697)	(2.8)	502	3.2	—	—	—	—
Foreign currency exchange losses, net	(171)	(0.7)	(29)	(0.2)	(111)	(0.5)	(408)	(3.6)
Income (loss) before income tax	7,672	31.6	(4,255)	(27.2)	743	3.5	(13,283)	(117.3)
Income tax (expense) benefit	(478)	(2.0)	391	2.5	(258)	(1.2)	941	8.3
<b>Net income (loss)</b>	<b>7,194</b>	<b>29.6%</b>	<b>(3,864)</b>	<b>(24.7%)</b>	<b>485</b>	<b>2.3%</b>	<b>(12,342)</b>	<b>(109.0%)</b>

### Liquidity and Capital Resources

Historically, we have financed our working capital and capital expenditure requirements primarily through debt financing and more recently through the sale of our preferred shares. As of September 30, 2007, we had RMB52.6 million (\$7.0 million) in cash. Our cash was primarily deposited with banks in China and Hong Kong. We intend to finance our future additional working capital and capital expenditure needs from cash flow provided by operations.

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The following table summarizes our net cash flows with respect to operating activities, investing activities and financing activities in the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2007:

	For the Fiscal Year Ended March 31,		For the Six Months Ended September 30,	
	2006	2007	2007	2007
	RMB	RMB	RMB	\$
		(In thousands)		
Net cash (used in) provided by operating activities	(16,548)	(16,524)	6,057	808
Net cash provided by investing activities	12,158	1,052	2,483	331
Net cash (used in) provided by financing activities	(43,942)	16,030	(829)	(111)
Effect of foreign exchange rate changes on cash	(74)	(163)	(163)	(21)
Net (decrease) increase in cash	(48,406)	395	7,548	1,007
Cash at beginning of year/period	93,030	44,624	45,019	6,008
Cash at end of year/period	44,624	45,019	52,567	7,015

Net cash used in operating activities was RMB16.5 million (\$2.2 million) in the fiscal year ended March 31, 2007 compared to net cash used in operating activities of RMB16.5 million in the fiscal year ended March 31, 2006. In the fiscal year ended March 31, 2006, we paid RMB7.6 million to a related party, Yinchuan Holding, in connection with our exercise of a call option to purchase Yinchuan Holding's 60% equity interest in ATA Learning. We did not incur a similar interest payment in the fiscal year ended March 31, 2007. Without taking into account the effect of interest payment, our cash used in operating activities in the fiscal year ended March 31, 2007 was RMB7.6 million higher than that in the fiscal year ended March 31, 2006 primarily because we paid RMB8.0 million professional service fees in connection with our initial public offering process and we increased our pre-payments under our license from Microsoft China, paying a substantially higher prepaid royalty in anticipation of growth in the number of students participating in test-based educational programs involving Microsoft content. Our pre-payment to Microsoft China was RMB4.5 million as of March 31, 2007 as compared to nil as of March 31, 2006. Net cash provided by operating activities in the six months ended September 30, 2007 turned positive, at RMB6.1 million (\$0.8 million), primarily due to a significant increase in cash collected from our testing services and test preparation solutions, including RMB31.5 million cash collected from test takers in relation to tests delivered for the China Banking Association. Our current testing services and test preparation solutions clients generally have a shorter accounts receivable cycle than our test-based educational services clients. Offsetting this cash inflow were cash expenditures on test monitoring costs, license fees paid to IT vendors and other operating expenses.

Net cash provided by investing activities was RMB1.1 million (\$0.1 million) in the fiscal year ended March 31, 2007 and was affected principally by the deposit of RMB2.0 million received from the sale of Wendu Education, and RMB5.1 million received from the collection of loans and advances to shareholders and management in connection with a new policy implemented by us to eliminate personal loans and minimize operations-related loans and advances available to shareholders and management. Offsetting these cash increases was a capital expenditure of RMB4.7 million mainly used to purchase computers and servers to support our new business initiatives such as online test preparation services. Net cash provided by investing activities in the fiscal year ended March 31, 2006 was RMB12.2 million, principally due to RMB20.0 million loan collected from Yinchuan Holding, which was partially offset by a RMB4.0 million investment in Wendu Education and RMB2.7 million used in capital expenditures on computer equipment and servers. Net cash provided by investing activities in the six months ended September 30, 2007 of RMB2.5 million (\$0.3 million) was primarily attributable to the proceeds from disposal of our interest in Wendu Education and from the liquidation of ATA Jiangsu, offset by RMB2.5 million spent on capital equipment, including computers and servers.

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Net cash provided by financing activities was RMB16.0 million (\$2.1 million) in the fiscal year ended March 31, 2007. This was primarily attributable to the cash proceeds from the exercise of a warrant held by SB Asia Investment Fund II, L.P. to purchase preferred shares for RMB24.0 million. Offsetting these proceeds was RMB8.0 million paid in connection with preparations for our initial public offering incurred in the fiscal year ended March 31, 2007. Net cash used by financing activities was RMB43.9 million in the fiscal year ended March 31, 2006. This was primarily attributable to repayment of a financial arrangement to acquire the remaining equity ownership interest in ATA Learning for RMB30.0 million. We also paid RMB9.9 million to repay advances and loans from both related and third parties, and RMB4.1 million in connection with the issuance of our preferred shares and preferred share related warrants and in preparation of our initial public offering. Net cash used in financing activities in the six months ended September 30, 2007 was RMB0.8 million (\$0.1 million), attributable to cash paid in connection with preparations for our initial public offering.

We believe that, without giving effect to this offering, our current cash and expected future cash flows from operations, particularly from testing services and test preparation solutions, will be sufficient to meet our anticipated working capital and capital expenditures through the fiscal year ending March 31, 2009, and that giving effect to this offering, our cash flows will also be sufficient to carry out the activities described in "Use of Proceeds." Our current expansion plans do not require significant capital commitments. Obtaining and performing new computer-based testing contracts does not involve significant new costs or capital outlays and are generally handled by our existing facilities, resources and systems. Our expansion into test preparation solutions is also not cash-intensive as these solutions may be implemented to a large extent using our existing technologies and service know-how. We do, however, expect to spend money on the development of our "ATA" brand and the licensing of new course content for our test-based educational programs. We do not expect our short-term and long-term cash requirements to be materially different.

Nevertheless, we may require additional sources of liquidity in the event of changes in business conditions or other future developments. Factors affecting our sources of liquidity include our sales performance and changes in working capital. Any changes in the significant factors affecting our revenues from testing services, test-based educational services and test preparation solutions may cause material fluctuations in our cash generated from operations. See "— Net Revenues" for a description of these significant factors. Changes in working capital, including any significant shortening or lengthening of our accounts receivable cycle or client prepayment cycles, may also cause fluctuations in our cash generated from operations. If our sources of liquidity are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities to meet our cash needs. The sale of convertible debt securities or additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

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

### **Contractual Obligations and Commercial Commitments**

The following table sets forth our contractual obligations as of fiscal year ended March 31, 2007:

	Payment Due by Period				More than 5 Years
	Total	Within 1 Year	1-3 Years	3-5 Years	
	(In thousands of RMB)				
Operating lease obligations	14,745	4,110	10,635	—	—

Our operating lease obligations are comprised of our office lease obligations for our offices in China, including an increase in lease payments for the lease of an additional floor at our current principal



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office location to cope with growth in our business and headcount. These office leases expire at different times over the period from the date of this prospectus through April 2011, and will become subject to renewal. We will evaluate the need to renew each office lease on a case-by-case basis prior to its expiration.

Under our cooperation agreement with Tsinghua University, entered into in August 2007, for the development and delivery of course programs using course content provided by Tsinghua University, we are obligated to pay Tsinghua University at least RMB15.0 million in license fees for Tsinghua University course content by the end the third anniversary of the date of the contract, of which RMB5.0 million was payable prior to October 31, 2007. The license fees are paid to Tsinghua University quarterly based on actual usage.

On October 15, 2007, we entered into definitive agreements to purchase the entire equity interests of Beijing Jindixin Software Technology Company Limited and JDX Holdings Limited for an aggregate consideration of RMB10.0 million. On October 15, 2007, we made a deposit of RMB2.0 million in the aggregate to the sellers with the remainder of the consideration due upon closing. The transaction is expected to close in March 2008, subject to satisfaction of customary closing conditions.

### **Indebtedness**

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

### **Capital Expenditures**

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

	For the Year Ended March 31,		For the Six Months Ended September 30,	
	2006	2007	2007	2007
	RMB	RMB	RMB	\$
Total capital expenditures	2,699	4,721	2,558	341

In the past, our capital expenditures were made primarily for the purchase of computer equipment and servers. Our capital expenditures for the fiscal year ended March 31, 2008 are expected to be higher than in the past due to additional purchases of computer equipment and servers. We also expect to incur capital expenditures in the form of leasehold improvements.

### **Foreign Exchange**

We maintain our accounts in Renminbi, Hong Kong dollars and U.S. dollars. A substantial majority of our revenues and expenditures are denominated in Renminbi. The non-Renminbi portion of our revenues have primarily consisted of U.S. dollar-denominated licensing fees and royalty payments, while the non-Renminbi portion of our expenditures have primarily consisted of professional fees, both denominated in U.S. dollars, as well as certain Hong Kong dollar-denominated general and administrative expenses. Fluctuations in exchange rates, primarily those involving the U.S. dollar against the Renminbi, may affect our costs and operating margins and our reported operating results. Under the current foreign exchange system in China, our operations in China may not be able to hedge effectively against currency risk, including any possible future Renminbi devaluation. See "Risk Factors — Risks Relating to the People's Republic of China — Fluctuations in exchange rates could result in foreign currency exchange losses."

## **Off-Balance Sheet Commitments and Arrangements**

We do not currently have, and do not expect in the future to have, any outstanding 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.

## **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***

A substantial majority of our revenues and expenditures are denominated in Renminbi. As a result, fluctuations in the exchange rate between the U.S. dollar and Renminbi will affect our financial results in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. The Renminbi's exchange rate with the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. The exchange rate for conversion of Renminbi into foreign currencies is heavily influenced by intervention in the foreign exchange market by the People's Bank of China. From 1995 until July 2005, the People's Bank of China intervened in the foreign exchange market to maintain an exchange rate of approximately 8.3 Renminbi per U.S. dollar. On July 21, 2005, the Chinese government changed this policy and began allowing modest appreciation of the Renminbi versus the U.S. dollar. However, the Renminbi is restricted to a rise or fall of no more than 0.5% per day versus the U.S. dollar, and the People's Bank of China continues to intervene in the foreign exchange market to prevent significant short-term fluctuations in the Renminbi exchange rate. Nevertheless, under China's current exchange rate regime, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. The Renminbi appreciated 11.9% versus the U.S. dollar from July 21, 2005 to December 31, 2007. There remains significant international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. dollar.

### ***Inflation***

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in China's Consumer Price Index was 3.9%, 1.8%, 1.5% and 4.6% in the years 2004, 2005, 2006 and the eleven months through November 2007, respectively.

## **Internal Control Over Financial Reporting**

In connection with the audit of our prior consolidated financial statements (not included in this prospectus), our independent registered public accounting firm informed us that we lacked sufficient personnel with the appropriate level of accounting knowledge, experience and training in the application of U.S. GAAP, which deficiency amounted to a "material weakness" as defined under the standards established by the Public Company Accounting Oversight Board. In response to this material weakness and other internal control deficiencies previously reported to us by our independent registered public

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accounting firm we undertook certain remedial steps to improve our internal controls, including the following:

- *Contract Controls* — Prior to 2006, we did not have a systematic process to capture, record, process, and report appropriate revenue information from our contracts. In 2006, we began implementing procedures designed to ensure all contract information was appropriately captured by our finance department in a timely manner, including the implementation of, processes to improve the initiation, authorization, recording, processing, and reporting of relevant contract data and other information necessary to properly record our business transactions in accordance with U.S. GAAP.
- *Accounting Management Software* — Prior to 2006, our accounting ledgers and records were kept manually. In 2006, we began to use an accounting management software system to improve the accuracy of our financial records. In December 2006, we implemented a new operational system, which allows contract information to be linked to our accounting management software system to facilitate real-time updating and management of financial information. In addition, when fully implemented, this upgrade will enable us to automate the preparation of certain financial reports of all our different legal entities.
- *Expense and Cash Controls* — Starting in the first half of 2007, we began implementing new expense and cash control procedures designed to ensure that cash advances and expenses are approved at the appropriate level commensurate with the amount, and that requests for expense reimbursement by employees are properly documented. Further, since May 2007, cash management has been centralized in the finance department of our Beijing headquarters, including centralized monitoring over the bank account balances of all our regional offices. In addition, since March 2007, we have implemented strict cost and expense accrual reporting by each of our business departments to ensure costs and expenses are properly accrued at the end of each month.
- *Internal and Third Party Monitoring Services* — In October 2007, we began efforts to establish an internal audit team by retaining a professional recruiting firm to help us find qualified staff in the areas of U.S. GAAP and compliance with Section 404 of the Sarbanes-Oxley Act. The purpose of our internal audit team will be to randomly and periodically monitor and report on the quality and integrity of our internal ledgers and accounting system, monitor and report any deficiencies in contract processing procedures, and monitor the operating progress of contracts performed as compared to contracts agreed. In addition, we also plan to give more training to our accounting staff and hire additional and more experienced accounting personnel with U.S. GAAP experience.

Despite these ongoing efforts, in connection with the audit of our consolidated financial statements for the years ended March 31, 2006 and 2007, our independent registered public accounting firm reported to us that we had two material weaknesses in our internal controls over financial reporting.

One of the material weaknesses communicated to us was our inability to provide objectively verifiable evidence to apply cash collections against our accounts receivable balance following the implementation of a new operational system in December 2006. These cash collections were initially incorrectly recorded as deferred revenue, resulting in an audit adjustment to remove the overstatement of both accounts receivable and deferred revenue by RMB6.4 million as of March 31, 2007. The second material weakness communicated to us was our continuing lack of sufficient personnel with an appropriate level of accounting knowledge, experience and training in the application of U.S. GAAP. As a result of this material weakness, the following audit adjustments to our consolidated financial statements for the years ended March 31, 2006 and 2007 were required by our independent registered public accounting firm to be recorded by us: (1) adjustments to recognize additional revenue of RMB14.3 million and RMB2.2 million for the years ended March 31, 2006 and 2007, respectively, due to our initial inappropriate application of our revenue recognition policy; (2) an adjustment to charge to expense RMB9.2 million for the year ended March 31, 2007 due to the initial incorrect deferral of certain costs

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relating to our planned initial public offering that do not qualify for deferral; (3) adjustments to charge to expense of RMB4.1 million and RMB2.5 million for the years ended March 31, 2006 and 2007, respectively, due to the initial improper recognition of share-based compensation; (4) adjustments to increase our income tax benefit by RMB0.5 million and RMB1.8 million for the years ended March 31, 2006 and 2007, respectively, due to the improper valuation allowance initially recorded on deferred income tax assets; (5) an adjustment of RMB13.9 million to increase the net loss applicable to common shareholders for the year ended March 31, 2006 due to an error in the initial recording of the accretion of redeemable convertible preferred shares to redemption value; and (6) an adjustment to increase net loss for the year ended March 31, 2006 by RMB22.4 million due to an error in the initial recording of the extension of a common share warrant. Certain of these errors also impacted, and required us to make adjustments to, our consolidated financial statements for periods prior to our fiscal year ended March 31, 2006.

To address these material weaknesses in our internal controls:

- we are actively seeking to hire additional individuals with the requisite U.S. GAAP and SEC reporting expertise;
- we intend to increase our in-house expertise and reporting capabilities through additional training and increased interaction with our independent registered public accounting firm;
- we are preparing an accounting policy manual as a reference in connection with reviewing recurring transactions and period-end closing processes, among other tasks;
- we intend to strengthen our internal audit function to focus on financial and reporting processes in addition to our operational activities; and
- we are implementing monitoring and oversight control for non-recurring and complex transactions with such procedures to include the retention of third-party consultants to assist us in complying with U.S. GAAP and SEC requirements.

Our independent registered public accounting firm also communicated to us other deficiencies in our internal control over financial reporting that required improvement. These deficiencies included (1) insufficient training of our newly adopted accounting system, resulting in various accounting errors; (2) lack of physical control over inventory items resulting from non-sequential numbering of goods delivery and receipt; (3) lack of performance review for obsolete inventory information; (4) insufficient management review and authorization of employee bonuses; (5) lack of accountability of recorded transactions resulting from insufficient documentation for client acceptance of goods and services received; (6) lack of sufficient reconciliation of bank account information; (7) lack of management review and authorization of classification and recording of certain expenses; (8) insufficient performance review for information on collectibility of accounts receivable; and (9) insufficient management review and authorization of applicability of value-added tax and business tax.

We plan to remediate the material weaknesses and deficiencies discussed above and to take other steps to improve our internal control processes in time to meet the deadline for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. If, however, we fail to timely achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls over financial reporting.

### **Recent Accounting Pronouncements**

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48, which, among other things, requires applying a "more likely than not" threshold to the recognition and derecognition of tax positions. Our adoption of FIN 48 as of April 1, 2007 did not have any effect on our financial position or results of operations. We have elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of operations. No interest or penalties have been accrued at the

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date of adoption. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitation is 10 years. There is no statute of limitation in the case of tax evasion.

In September 2006, the FASB issued SFAS No. 157, *“Fair Value Measurements”*, or SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about the fair value measurements. The provisions of SFAS No. 157 will be effective for us on April 1, 2008. We are currently evaluating the impact of adopting SFAS No. 157 on our consolidated financial statements, but we do not expect its adoption to have a significant transition impact on our consolidated financial statements.

In November 2006, the FASB issued Emerging Issues Task Force Issue No. 06-6, *“Debtor’s Accounting for a Modification (or Exchange) of Convertible Debt Instruments”*, or EITF 06-6, which applies to modifications and exchanges of debt instruments that (a) either add or eliminate an embedded conversion option or (b) affect the fair value of an existing embedded conversion option. Our adoption of EITF 06-6 on April 1, 2007 did not have any effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159 *“The Fair Value Option for Financial Assets and Financial Liabilities”*, or SFAS No. 159, which permits entities to choose to measure many financial assets and financial liabilities at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reports in earnings. The provisions of SFAS No. 159 will be effective for us on April 1, 2008. We are currently evaluating whether to elect the fair value option as permitted under SFAS No. 159.

## INDUSTRY

### China's Growing Economy and Service Sector

China has one of the fastest growing economies in the world. China's National Bureau of Statistics reported that China's annual disposable income per urban resident increased from \$1,028 in 2002 to \$1,569 in 2006, representing a CAGR of 11.1%. As China's economy continues to develop, its service industries are playing an increasingly important role. The tertiary sector, which is comprised mainly of service industries, accounted for approximately 39% of China's GDP and employed approximately 32% of China's total labor force in 2006, according to the National Bureau of Statistics of China.

### China's Testing Market

China has one of the world's largest testing markets in terms of number of test takers with 122.7 million test candidates in 2006, up from 112.6 million in 2005, according to IDC. Testing has played a prominent role in Chinese society for centuries, with successive Chinese dynasties and governments regularly administering standardized examinations as an integral part of selecting members of China's civil service. This long tradition of testing continues today and its impact extends beyond government and education, with professional associations and businesses in China also relying on tests to issue professional licenses and certifications, assess ongoing professional skills, and select job candidates.

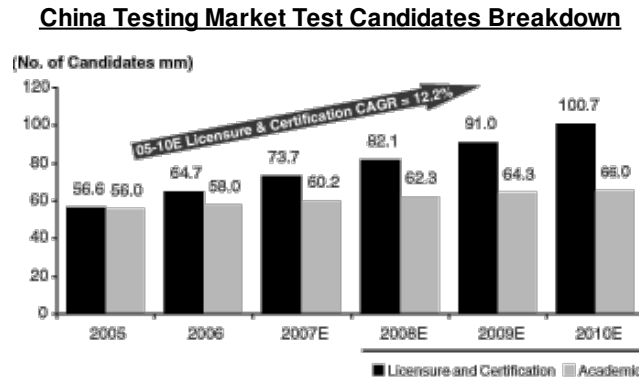
The following graph sets forth total revenues for China's testing market from 2005 to 2010.



Source: IDC, China Computer-Based Testing 2006-2010 Forecast and Analysis

China's testing market is broken down into academic testing and licensure and certification testing. Academic testing includes tests that students take in conjunction with primary, secondary and post-secondary education, for example college and graduate school entrance examinations. Licensure and certification testing includes the assessment of professional qualifications and certifications in areas such as teaching, financial services and IT related certifications, as well as tests for specialized skills, such as foreign language proficiency. In addition to academic testing, licensure and certification testing represents a significant pool of test takers and a significant portion of the total amount spent on testing. According to IDC, licensure and certification testing in China is expected to grow significantly more rapidly than academic testing over the next several years. According to CEIC Data Company, Ltd., there were approximately 3.7 million employees in the banking and insurance industries as of June 2007, and according to China's Ministry of Education, approximately 11.2 million teachers involved in primary and secondary education throughout China in 2006. As licensure and certification testing continues to outgrow academic testing, we expect a corresponding increase in the number of candidates in the above industries.

The following graph sets forth data on test takers in China from 2005 to 2010.



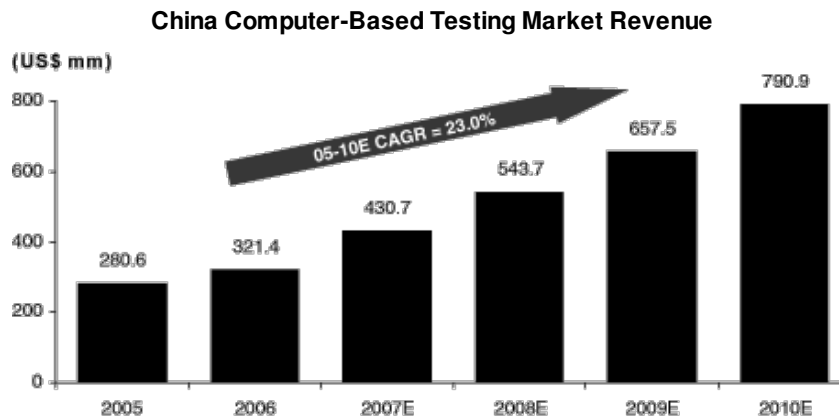
Source: IDC, China Computer-Based Testing 2006-2010 Forecast and Analysis

**Key Trends in China's Testing Market**

- *Increasing number of individuals seeking licensure and certification.* In many industries in China there is a shortage of highly skilled workers, especially workers who have proper licenses and qualifications. For example, China's National Bureau of Statistics estimates that in 2006 there were only 68,000 registered employees in the securities industry in all of China. According to IDC, the demand and supply gap for employees with specialized skills will be between 51.8 million and 53.5 million in 2010, leading to further demand for individuals seeking licensure and certification.
- *Increasing use of computer-based testing.* As China's economy has modernized and become more dependent on technology, a growing number of test sponsors have adopted computer-based tests in place of traditional paper-based tests. Computer-based tests offer key advantages over traditional paper-based tests, including easier administration, reduced scoring errors, greater data security and quicker results analysis. According to IDC, the ratio of computer-based tests to all tests administered in China will increase from 21.9% in 2006 to 31.7% in 2010 as measured by the number of test takers, and from 14.1% to 23.1% as measured by revenue.



The following graph sets forth total revenue and growth rates for China's computer-based testing market from 2005 to 2010.



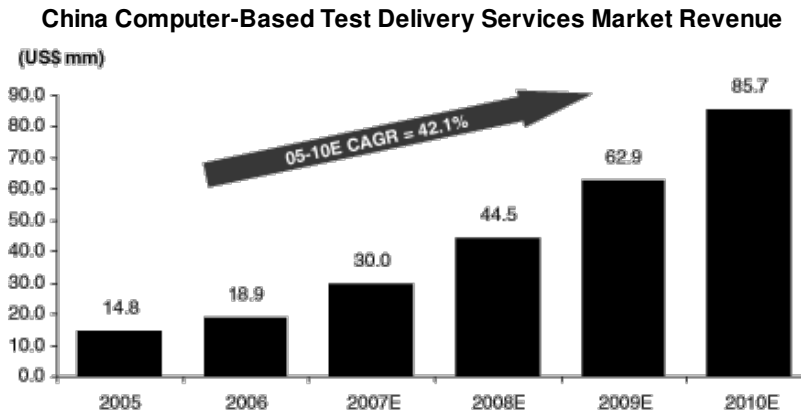
Source: IDC, China Computer-Based Testing 2006-2010 Forecast and Analysis

- *Increasing importance of performance-based testing.* Traditional paper-based tests have limited ability to evaluate a test taker's performance of specific tasks. Performance-based testing simulates a problem that requires the test taker to perform a series of hands-on tasks where a test taker's problem-solving skills can be evaluated. An increasing number of test sponsors in a wide variety of industries are shifting from standard multiple-choice and fill-in-the blank tests, to performance-based tests. In addition, many academic institutions in China are also increasingly moving towards performance-based testing as a way to encourage students to learn not only concepts and theory but also the real-world application of such knowledge to make them more competitive in the career marketplace.
- *Increasing demand for IT certification tests using computer-based simulation technology.* The demand for IT education in China is growing rapidly due to the nation's growing IT sector. To meet the increasing need for skilled IT professionals in China, IT vendors are increasingly relying on certification programs centered on computer-simulated testing methods. These programs allow candidates to learn by doing and to build practical skills and experience through simulated- environment learning and testing.
- *Increasing demand for outsourced testing services.* Traditionally, the development and delivery of tests have been handled in-house by education providers or test sponsors. However, the increasing use of computer-based tests and performance-based tests in recent years has created challenges for education providers and test sponsors that have made in-house test delivery and administration increasingly difficult. In order to cost-effectively respond to these challenges, education providers and test sponsors are increasingly outsourcing the design and delivery of their tests to third-party service providers.

The above key trends provide significant growth potential for computer-based testing service providers in China.

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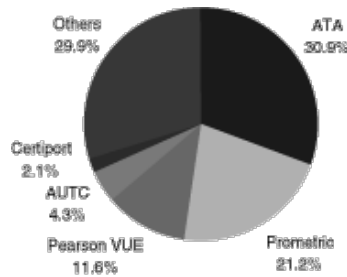
The following graph shows the expected revenues from China's computer-based test delivery services market from 2005 to 2010.



Source: IDC, China Computer-Based Testing 2006-2010 Forecast and Analysis

Three major players, including us, together held more than 75% of China's computer-based testing services market in 2006 in terms of revenue, as shown in the following chart.

**2006 Market Share of Major Computer-Based Testing Service Providers in China**



Source: IDC, Computer-Based Testing 2006-2010 Forecast and Analysis

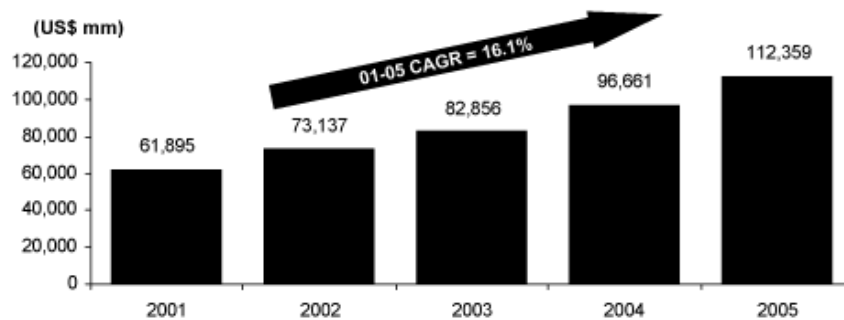
**China's Education Market**

China's education market is experiencing rapid growth both in terms of the number of schools and the number of students, especially at the post-secondary higher education level. The number of students in post-secondary higher education programs has increased from 12.1 million in 2001 to over 25.0 million in 2006,

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according to China's Ministry of Education. Moreover, spending on education has risen in recent years, as shown in the graph below.

### China National Education Spending



Source: National Bureau of Statistics of the People's Republic of China

As more people enter China's job market with higher education levels, we expect that the competition for higher paying jobs will become more intense. Workers with comparable education levels will seek a competitive edge in testing for professional licenses and certifications. We believe that test takers in China spend significantly more time and money on test preparation and learning exercises than on actual test taking. As the number of tests and the number of test takers continue to grow in China, we believe that test preparation spending will continue to enjoy significant growth in the next decade.

#### **Key Trends in China's Education Market**

- **Rapid growth of vocational education.** The market for vocational education in China is expected to grow due to various demands, including demand from employers for skilled workers, demand from an increasing number of technical high school and junior college graduates seeking entry-level employment positions which require professional licenses and certifications, and demand from working people who wish to further their career and salary advancement potential. According to the Beijing Zhong Jing Zongheng Economic Research Institution, the career education and management education markets were valued at approximately \$4.3 billion and \$2.0 billion, respectively, in 2004, and are expected to grow to approximately \$39.9 billion and \$18.0 billion, respectively, in 2010.  
  
We believe that Chinese vocational education providers are increasingly looking to source course content and learning materials from outside providers. In particular, we believe that an attractive opportunity exists for educational service providers who can provide effective learning programs that enable students to better prepare for and attain licenses and certifications in professions such as the IT industry and other industries requiring high technical competence or specialized knowledge and skills. According to the Beijing Zhong Jing Zongheng Economic Research Institution, China's IT training market is estimated to grow from \$533.8 million in 2006 to \$1.3 billion in 2010, representing a CAGR of 25.7%.
- **Emergence of online education and test preparation market.** The rise of Internet use in China is reflected in the growing number of Internet users in China. According to IDC, the number of Internet users in China is expected to reach approximately 150.1 million in 2007 and 196.4 million in 2011. As Internet usage becomes increasingly common, people are turning to online resources as a means of furthering their education and to prepare for

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various types of tests. Online education and test preparation provide students the flexibility to take interactive courses at times and in locations most convenient to them. Online education and test preparation are particularly attractive to working adults, and their employers, especially as they seek to combine work and their pursuit of higher level licenses and certifications. In addition, the Internet also enables educational service providers to reach and serve a broader base of students without substantial incremental costs such as the additional hiring of more teachers and usage of teaching facilities. According to the Beijing Zhong Jing Zongheng Economic Research Institution, China's online education market was valued at approximately \$1.9 billion in 2004 and is expected to grow to \$4.0 billion by 2007.

## BUSINESS

### Overview

We are the leading provider of computer-based testing services in China, with the largest market share, 30.9%, in terms of revenue in 2006, according to IDC. We also provide career-oriented, test-based educational programs and test preparation solutions in China. To comply with PRC law, we operate the online portion of our test preparation solutions business through a series of contractual arrangements with ATA Online (Beijing) Education Technology Limited, or ATA Online, a PRC entity owned by two of our founders and over which we do not have direct control or direct oversight. Our clients include professional associations, such as the China Banking Association and the Securities Association of China, which accounted for 19.5% and 4.2%, respectively, of our net revenues for the six months ended September 30, 2007, Chinese governmental agencies, including the PRC Ministry of Labor, which accounted for 8.5% of our net revenues for the same period, well-known IT vendors, Chinese educational institutions, distributors of our test preparation software products, and individual test preparation services consumers. During the six months ended September 30, 2007, approximately two million tests were delivered using our computer-based testing technologies and services.

We began providing computer-based testing services in 1999. We offer comprehensive services for the creation and delivery of computer-based tests based on our proprietary testing technologies and test delivery platform. Our computer-based testing services are used for professional licensure and certification tests in various industries, including IT services, banking, teaching, securities, insurance and accounting. Our test center network comprised 1,810 authorized test centers located throughout China as of September 30, 2007, which we believe is the largest test center network of any commercial testing service provider in China based on client feedback and our market experience. Combined with our test delivery technologies, this network allows our clients to administer large-scale nationwide tests in a consistent, secure and cost-effective manner. We have delivered over 23 million tests since 1999, and in July 2007 delivered tests to more than 200,000 test takers in a single day for the China Banking Association, through our test delivery platform.

Leveraging our testing expertise, we have expanded into providing career-oriented educational services and test preparation solutions. In 2002, we began offering career-oriented course programs, which we market to Chinese educational institutions. We develop our course programs by integrating our testing technologies and services with IT learning content authorized by major IT vendors such as Microsoft China, Borland and Adobe. In March 2006, we began offering pre-occupational training programs, which allow students to obtain practical skills for specific job requirements. By integrating our testing technologies with test preparation content, we began offering targeted test preparation solutions for certain professional licensure and certification tests in the securities, insurance and teaching industries in 2006. ATA Online has launched online test preparation Internet web sites in coordination with the Securities Association of China and the China Banking Association to help candidates across China prepare for these organizations' professional licensure and certification tests, which are delivered through our test delivery platform. We also offer our NTET Tutorial Platform software for training teachers for certification under the National Teachers' Skill Test of Applied Educational Technology in Secondary and Elementary School, or NTET test, which is delivered nationwide through our test delivery platform.

Our proprietary technologies and know-how for the creation and delivery of computer-based tests are important to our service capabilities. Our E-testing platform is composed of a set of self-developed tools and applications for facilitating the computer-based testing process, and is capable of handling large-scale tests and quickly and securely transmitting, processing and storing large amounts of data. We have also developed proprietary technologies for the creation and operation of advanced performance-based tests, such as our self-developed Dynamic Simulation Technology, which leading IT certification sponsors, such as Microsoft have adopted for their computer-simulated tests given around the world. We have also developed content creation technologies for the conversion of paper-based tests into computer-based formats.

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Our total net revenues have increased from RMB69.0 million for the fiscal year ended March 31, 2006 to RMB84.9 million (\$11.3 million) for the fiscal year ended March 31, 2007 and from RMB32.4 million for the six months ended September 30, 2006 to RMB76.2 million (\$10.2 million) for the six months ended September 30, 2007. We had net losses of RMB24.8 million and RMB16.8 million for the fiscal years ended March 31, 2006 and 2007, respectively, and net income of RMB8.5 million (\$1.1 million) for the six months ended September 30, 2007.

### **Our Competitive Strengths**

We believe that the following competitive strengths have been instrumental in achieving our current market position and provide the basis for our continued growth:

#### ***Early Mover Advantage and Leadership Position in the Computer-Based Testing Services Industry in China***

Testing has played a prominent role in Chinese society for centuries and continues to factor heavily in China's educational system and professional associations' and businesses' assessment of job candidates and their qualifications. While most tests are still conducted using traditional pen-and-paper formats, governmental and other test sponsors have begun migrating tests to computer-based formats. We began developing and marketing computer-based testing technologies and services in 1999 to test sponsors to help them more efficiently, securely and cost-effectively deliver their computer-based tests. We are also the only Asia-based member of the Association of Test Publishers, a widely recognized testing services trade association, which we believe further enhances our reputation in the testing services market in China.

By entering this market early in China, we have been able to secure long-standing relationships with many of China's most desirable and prolific test sponsors and become the first computer-based testing services provider for many of our clients. Entering this market early is important because many clients are reluctant to switch testing service providers once they have chosen one because of a desire to maintain consistency and stability from year to year in the test delivery format. In addition, switching testing service providers requires significant time and costs and often raises concerns about data security. Consequently, we believe that as long as our testing platform consistently meets our clients' test delivery requirements, they are likely to continue to use our testing platform and to focus their testing-related resources on creating and updating the content of their tests for use with our testing technologies and test delivery platform.

#### ***Ability to Provide Sophisticated and Large-Scale Testing Services***

- *Track record of delivering large-scale computer-based tests.* Through years of experience serving major test sponsors in China, we have developed considerable expertise in the delivery and administration of large-scale nationwide computer-based tests. Building upon this expertise, we have developed an advanced, secure and comprehensive test delivery platform. According to IDC, in 2006 we were the largest deliverer of computer-based testing services in China by revenues. We have delivered over 23 million tests since 1999, and in July 2007 delivered tests to more than 200,000 test takers in a single day for the China Banking Association, through our test delivery platform.
- *Extensive test center network and scalable test delivery platform.* Our extensive test center network and E-testing platform technologies provide the software and hardware necessary to ensure the stable, cost-effective, secure, accurate and easy-to-manage delivery of large-scale computer-based tests. Our nationwide test delivery network, comprised of 1,810 ATA authorized test centers located across China as of September 30, 2007, provides us with a distinct competitive advantage over our international and domestic rivals, none of which possess test center networks in China of comparable size to ours. We believe that it will be difficult and costly for others to replicate our nationwide test center network. Complementing our test center network, our E-testing platform provides us the technological

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platform to handle simultaneous delivery of computer-based tests in multiple locations. Our E-testing platform incorporates a flexible and customizable set of technologies covering all stages of the test delivery process from test item compilation and storage to test scoring and results analysis. Once a client's test has been customized for delivery through our E-testing platform, we can increase the size and volume of tests delivered easily and at relatively low additional costs. We believe that the large and increasing scale of our computer-based test delivery platform combined with its reputation for reliability, stability and flexibility in the testing market in China, provides a significant barrier to entry for potential competitors.

- *Flexible and customizable testing services.* Our computer-based testing technologies and services are designed to maximize flexibility and adaptability, which allows us to customize our services to meet each client's specific testing needs. The long history and diversity of China's testing market make standardization of testing platforms and formats difficult in China. As a result, flexibility and customization in testing services and test delivery platform are important in China's testing services market. Our E-testing platform is composed of a standardized "core" testing software system around which we have developed customizable parameters that may be configured to meet each client's specific needs. Using our E-testing platform as the basis, we work closely with each test sponsor client to develop a customized service plan that matches their technical and performance requirements. The flexibility of our technologies and services are especially important to clients with multiple test requirements, as they can use our testing platform for their various computer-based testing needs.
- *Advanced performance-based testing and test security technologies.* We have developed proprietary technologies as well as sophisticated and flexible software applications for the development and delivery of advanced performance-based tests. Our Dynamic Simulation Technology for the creation and operation of performance-based tests with computer-simulated environments has been licensed by Microsoft since 2003 for use with Microsoft Learning Products and Microsoft Certified Professional Exams delivered globally. As of September 30, 2007, approximately 390,000 Microsoft Certified Professional Exams had been delivered around the world using our proprietary testing technologies and interface. We also offer specialized test security systems that combine traditional communication security techniques, such as the separation of test content into data fragments, with the use of cutting-edge data security technologies, such as encrypted data, digital algorithms and electronic authorization keys, which we believe are among the most advanced in the global computer-based testing services market. We believe that computer-based test sponsors are concerned with test data security and that our test security technologies and systems are recognized as meeting the highest standards in the industry.

### ***Established Relationships with Key Test Sponsors and Leading IT Vendors***

Client relationships are critical to our success and we continue to strengthen our collaborative relationships with key clients, including since 2000 the PRC Ministry of Labor, for which we have delivered 472,761, 649,406 and 394,374 tests in the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2007, respectively. We have also developed relationships with other Chinese governmental institutions that sponsor tests, such as the Ministry of Education, with which we have worked to develop our career-oriented course programs since 2002 and more recently our NTET Tutorial Platform software. In addition, we have developed relationships with various key professional services organizations, such as the Securities Association of China, the China Futures Association, the China Banking Association and the Insurance Association of China.

Beginning with Microsoft in 2002, we have entered into cooperation agreements with leading IT vendors, such as Adobe, Borland, Corel, Digital China, H3C, Trend Micro and Turbolinux, for the development of performance-based and application-driven educational programs and tests. Our deep knowledge of career-oriented education content acquired through our relationships with leading IT vendors



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and with test sponsors has provided us with the ability to create career-oriented educational programs curricula designed to teach practical skill sets and effectively assess the student's application of these skill sets.

### ***Experienced Management Team***

We have an international management team with extensive experience in computer-based testing, education services and software development. Several members of our senior management team have significant experience working with Chinese governmental agencies and several have worked with leading companies in the computer-based testing and education industries, such as Microsoft Learning, Pearson VUE and Prometric. The combination of skills and experience of our senior management team has allowed us to solidify our relationships with a diverse group of clients ranging from Chinese governmental ministries to the world's leading IT vendors to academic institutions and other organizations in China.

### **Our Strategy**

Our mission is to extend our position as the leading provider of computer-based testing services in China, and expand our career-oriented educational programs and test preparation solutions in China, by pursuing the following strategies:

#### ***Continue to Seek Opportunities in Licensure and Certification Testing Services***

As China's economy and service sector continue to develop, governmental agencies, industry associations and private business are increasingly using licensure and certification tests to identify qualified professionals. We believe the number of people seeking careers in professions that require licensure and certification is growing, and will continue to grow, rapidly. In order to certify increasing numbers of people, the number and scale of licensure and certification tests will continue to grow, which offers us an opportunity to expand into additional industries requiring licensure and certification. We will continue to identify industries where traditional licensure and certification tests can be adapted to our computer-based testing methods to leverage our computer-based testing expertise and technologies and our extensive test delivery network. We actively promote computer-based testing and our services to sponsors of traditional-format tests by educating them about the benefits of computer-based testing. In addition, we will continue to seek opportunities in industries that will require progressively advanced levels of licensure and certifications, such as different levels of certifications for securities, banking or insurance industry professionals. We believe that such additional levels of licensure and certifications will increase both the number of tests delivered through our test delivery platform as well as bring additional users to ATA Online's Internet test preparation web sites.

#### ***Further Enhance Our Technology and Expand Our Test Center Network Reach***

Our test content creation and delivery technologies are important components of our products, services and market leadership. We will continuously upgrade our test content creation technologies and delivery systems in order to provide best-in-class testing services at competitive prices to our clients. In addition to periodically updating our E-testing platform technology, we are working on the commercial implementation of advanced testing technologies, such as speech recognition engines and more advanced simulation of real environments. We plan to incorporate these technologies into our service offerings as well as to license certain advanced technologies to leading international IT vendors and test preparation companies. We also intend to promote our self-developed computer-based testing interface technology and data specification standards as industry standards. At the same time, to respond to the rapidly increasing demand by Chinese test sponsors for nationwide, large-scale tests, we will continue to expand our network of authorized test centers, especially in smaller cities and less developed provinces of China.

***Leverage Our Testing Service Strengths to Expand Our Test Preparation and Educational Program Offerings***

We believe that people spend significantly more time and money on test preparation and learning exercises than on actual test taking. Moreover, we believe that the importance attached to tests and test results in China encourages people to spend significant amounts of time and money to seek advantages over other test takers. Our experience and leadership position in providing computer-based testing services provides us with an effective platform from which to expand our service offerings into test preparation and educational services.

ATA Online launched online test preparation Internet web sites in coordination with the Securities Association of China in November 2006 to help the large number of candidates across China prepare for professional licensure and certification tests conducted by this professional association that are delivered using our testing technologies and platform. We launched a similar web site in coordination with the China Banking Association in July 2007 and plan to launch online test preparation solutions for insurance and futures certification tests in early 2008. We also plan to offer new services for teachers preparing for the NTET test and add upgrades to our NTET Tutorial Platform through our web site. Leveraging our experience in developing software programs for our NTET Tutorial Platform, we plan to offer similar software programs to junior and middle schools for use in relation to courses and tests given to students. In relation to our educational service offerings, which are currently aimed at students majoring in IT-related subjects, we plan to develop career-oriented course programs for students preparing for careers in the financial services industries, including securities, futures, banking and insurance. Our goal is to leverage our relationships with key test sponsors to provide comprehensive services along the entire education value chain, from learning to test preparation to testing.

***Increase Recognition of our “ATA” Brand***

As we expand our test preparation solutions, our brand, which we believe is currently well-recognized among test sponsors and educational institutions, will become increasingly critical to our success. We intend to establish the ATA name as the leading provider of quality computer-based testing and test preparation solutions in China. We believe our familiarity with testing procedures and test content will allow us to establish our market credibility and position us favorably as a leading test preparation solutions provider. We promote wider recognition of our “ATA” brand among test takers by placing our logo prominently outside ATA authorized test centers and in test and course program materials. We also engage in on-campus marketing activities through prominently placed marketing materials, such as posters and other advertising means.

***Pursue Selective Strategic Acquisitions and Alliances***

We believe that selective acquisitions of and alliances with complementary businesses can further broaden our service offerings, attract additional clients and strengthen our service quality. We intend to seek acquisition and alliance opportunities in the areas of testing, test preparation and education that can enhance the scope of our products and services. We intend to pursue any acquisitions and alliances with prudence and only consider opportunities that are strategically complementary and can add long-term value to our shareholders.

**Our Products and Services**

Our primary product and service offerings currently include:

- computer-based testing development and delivery, which includes our computer-based test delivery platform and services, our ATA authorized test center network and our test content creation technologies and services;
- career-oriented educational services, which include single course programs, degree major course programs and pre-occupational training programs; and

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- test preparation solutions, which include test preparation and training platforms for the securities and banking industries and test preparation software for the teaching industry.

### **Computer-Based Testing Development and Delivery**

We have developed a series of technologies and service solutions for the development and delivery of computer-based tests. Our comprehensive E-testing platform integrates all aspects of the test delivery process for computer-based tests, from test form compilation to test scoring and results analysis. Our test delivery services are further enhanced by our nation-wide network of test centers, which allows us to deliver tests on a large scale in a consistent, secure and cost-effective manner. By combining our advanced test content creation technologies with our test delivery platform and network of test centers, we can offer our clients a comprehensive and integrated solution to enhance the effectiveness of the entire testing process, as shown in the following diagram.



We have assisted our clients in creating and delivering a wide range of computer-based tests, including:

- licensure tests administered by governmental agencies that test the competence of candidates for positions with various governmental agencies or for certain types of jobs, and public exams administered by provincial-level human resources bureaus;
- professional association or qualifications tests required by governmental agencies or industry associations that test the competence of individuals who operate in certain industries that require technical expertise and which carry professional titles, such as:
- the Qualifications Exam for Individuals Engaged in the Securities Industry, designed and administered by the Securities Association of China under the supervision of the China Securities Regulatory Commission;
- the Insurance Agent Qualifications Exam, designed and administered by the Insurance Association of China under the supervision of the China Insurance Regulatory Commission;
- the Certification of China Banking Professionals Exam, designed and administered by the China Banking Association under the supervision of the China Banking Regulatory Commission;
- IT vendor tests that assess the technical skills and competence of IT professionals in relation to specific types of IT applications, computer operating systems or other IT skill sets, and that allow test takers to obtain a professional license or certification in a specific subject area, job title or career path; and
- enterprise assessment tests that various enterprises use for internal personnel assessment purposes.

*Computer-based test delivery platform and services.* We offer our clients a comprehensive set of services for the compilation, delivery and analysis of computer-based tests as well as logistical services such as test registration, scheduling and fee collection. Our E-testing platform incorporates a number of technologies and protocols designed to ensure the stable, cost-effective, secure, accurate, fast and easy-to-manage delivery of computer-based tests on a large scale. Our E-testing platform is flexible and is easily customized for many types of test content and the specific requirements of the test sponsor. Tests

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delivered through our E-testing platform may be conducted at our ATA authorized test centers or at other locations at the test sponsor's discretion.

Our E-testing platform includes the following services, which we also offer individually depending on the test sponsor's needs:

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

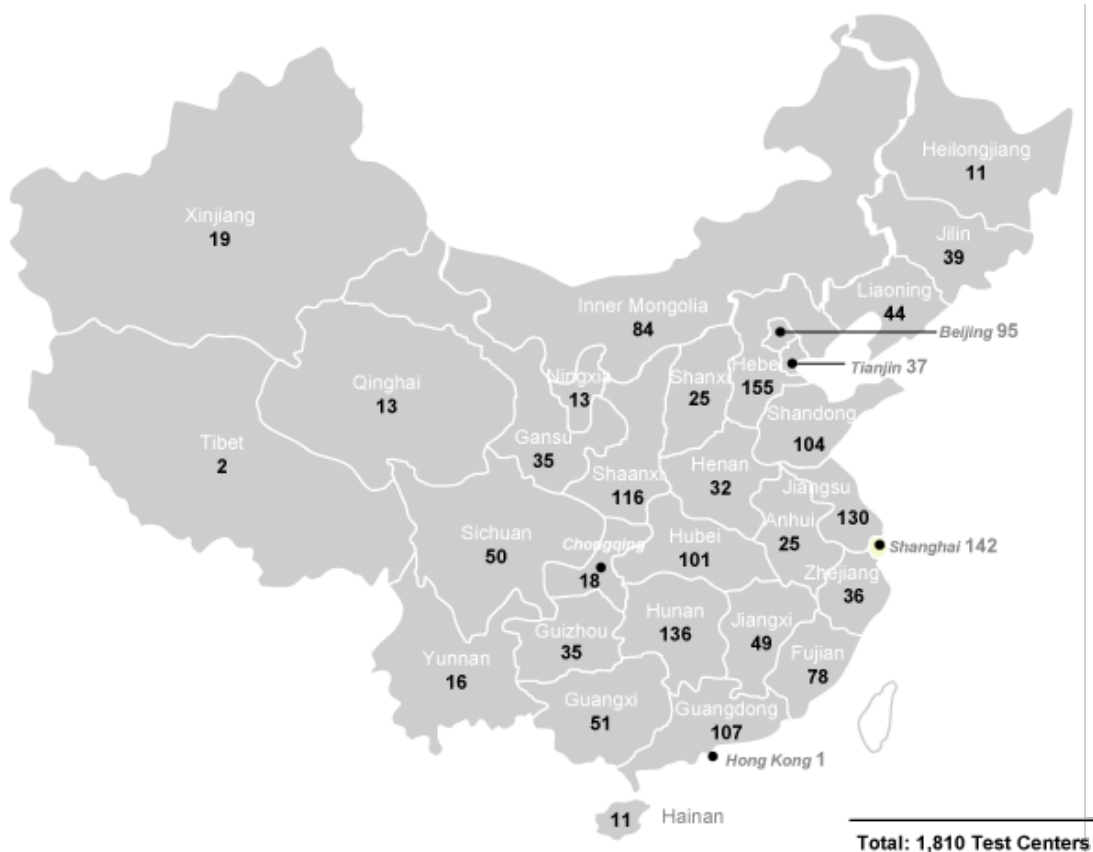
We also offer a number of logistical support services relating to test administration that we incorporate into the licensing fee for our test delivery platform based on a client's individual needs. These support services include:

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

*ATA authorized test center network.* To help our clients reach a broad base of test takers, we have established a large network of authorized test centers across China and in Hong Kong, which we refer to as our ATA authorized test centers. In 2005, the number of ATA authorized test centers in our network reached 1,500. As of September 30, 2007, we had contractual relationships with 1,810 ATA authorized test centers, of which 1,302 had hosted tests delivered through our testing platform during the preceding 24-month period. 1,275 of our authorized test centers possess the right to use our "ATA" brand name and logo. Our network of ATA authorized test centers provides the means for delivering and administering tests nationally both simultaneously and on a regularly scheduled basis under consistent and secure testing conditions. Our ATA authorized test center network is especially important for many of our government and industry association test sponsor clients that need to regularly administer large-scale tests across China. Our IT vendor clients value the ability of our ATA authorized test centers to broaden the base of potential test takers, allowing them to increase the number of certified professionals competent in the operation and use of their products and technologies.

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The following map shows the geographic distribution of our ATA authorized test centers as of September 30, 2007:



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

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

*Test content creation technologies and services.* We offer our clients advanced technologies and software applications for the creation of sophisticated computer-based tests, including advanced performance-based tests. Our Dynamic Simulation Technology provides the format for creating, illustrating, running and scoring tests in a virtual computer environment that accurately and realistically

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simulates the operating environment and functions of the software applications being tested without requiring the installation or use of those applications.

We have also developed two non-simulation core testing technologies: Real Environment Technology and ATA Markup Language. Our Real Environment Technology is used for creating, illustrating and running performance-based tests and learning exercises that operate within the actual operating system or software application being tested. For the creation and illustration of traditional knowledge-based test items, such as multiple-choice questions, we developed our ATA Markup Language, which is an XML-based language for writing and illustrating computer-based test questions using traditional question-and-answer formats.

We directly generate revenue from our test content creation technologies through the licensing of our technology. For example, we have agreements for the license of our Dynamic Simulation Technology and related simulation authoring tools to international IT certification sponsors, such as Microsoft, and third-party test preparation companies for the creation of test items and test preparation course exercise items for Microsoft Learning Products, including Microsoft Certified Professional Exams, delivered to students and test takers all over the world.

Creation of effective and user-friendly computer-based tests involves a multi-step process, including:

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

Depending on the client's needs, we can perform some or all of the above steps for each client. For example, in some cases, clients may have already created all of the test items and may only require us to build the test using our ATA E-testing platform. Computer-based tests can also be designed for delivery

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as on-going tests, which can be taken by the test taker at any time at his or her choice, for example by downloading the test from the client's web site, or as regularly scheduled tests, which must be taken by test takers at a specified time with advanced scheduling required.

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

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

In late 2002, in line with Chinese government policies promoting the development of career-oriented educational services and incentives for greater investment in vocational schools, we began developing educational course programs to be taught at educational institutions across China. With a focus on IT industry and vocational certification, this became our first effort to expand into the educational and test preparation market by leveraging our strong capabilities in test delivery. Our educational services package the testing and certification component of our testing services with licensed learning materials to provide an integrated learning and assessment solution. Many of the tests contained in our course programs have incorporated our advanced performance-based testing technologies to encourage hands-on real-world interactive learning experiences to replace the theoretical modes of learning which are no longer favored by many students, teachers and pedagogy scholars.

Our career-oriented educational services include single course programs, degree major course programs and pre-occupational training programs. We market these educational services to universities and vocational schools throughout China, often through regional marketing agreements with computer science or other relevant academic departments in key regional schools. Our educational services allow academic institutions to provide more career-oriented content and practical skills to assist their students in more easily securing employment with leading IT industry businesses, which increasingly favor job candidates with real-world experience in operating and trouble-shooting their products and technologies. At the same time, our educational services are attractive to IT vendors and other certification providers as they help to increase the market prevalence and acceptance of the software applications and technologies taught in the course program by "hooking" students onto those technologies and by motivating employers to adopt the technologies due to the larger talent pool proficient in operating them. We plan to expand our career-oriented educational service offerings beyond the IT industry by developing similar programs for students looking for careers in banking, securities, insurance and other industries in which we have relationships with key licensure and certification providers.

*Single course programs.* Each single course program we offer is typically centered on a specific type of computer software application or other technology that requires significant training and practice to master and for which certification is offered. We work closely with both the certification providers, which are usually well-known IT vendors, and the academic institutions to ensure the course and final exam content fully satisfies all of their respective requirements and maximizes the student's learning experience.

Upon successful completion of the course work and related computer-based examination, the student will obtain a qualification certification from the IT vendor or other certification provider as well as academic credit from the student's school. These courses are designed both for IT major students and non-IT majors. We contract with academic institutions to license the course program for the course period, which usually lasts for one academic semester. The license can be subsequently renewed for each new course semester. We generally provide the following services to the academic institution as part of our course programs:

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



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- at the beginning of each course period, providing students and teachers with course materials, which include textbooks, compact disks, visual lab equipment, slides, flash video case studies and exercise items;
- during the course period, providing ongoing support relating to the course and test software and the course materials, such as content updates, software upgrades, telephone support for teachers and students, online support including downloadable teaching guides, articles by well-known instructors and sample test materials available at our web site;
- at the end of each course period, uploading authorization information to permit the school to administer the final exam;
- delivering a second exam at no extra charge to each enrolled student who fails the final exam on the first try;
- on request and subject to additional fees, providing training sessions for course teachers during the summer or winter holidays for a separate fee charged to the schools, which we record as training revenue; and
- where necessary, preparing and delivering certificates for test takers who have passed the test certification requirement.

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

*Degree major course programs.* Our degree major course programs are designed to be career-oriented, helping graduates prepare for particular types of jobs and career paths. These programs are essentially combinations of multiple single course programs designed to help students acquire a cluster of skill sets that can best prepare them for particular job types and careers and, in some cases, the specific requirements of certain well-known IT vendors. Generally, the entire degree major course program can be completed within two to three years and comprises all courses necessary for the student's college major. When designing a degree major course program, we first work with the IT vendors to define a job type or career path and to design a course curriculum that enables students to acquire the sets of knowledge and practical skills required to perform the job and become certified operators within that area. We then design what we refer to as a "learning roadmap" for each job type, which includes a set of core, compulsory courses and additional elective courses that students can choose from based on the specific career path they intend to pursue. We work with IT vendors and the course instructors to ensure that the courses are taught in an interactive and dynamic manner making maximum use of our advanced performance-based learning and testing technologies. In August 2007, we entered into a cooperation agreement with Tsinghua University to develop IT degree major course programs to be taught at post-secondary educational institutions incorporating course content developed by Tsinghua University.

Our contracts with academic institutions for degree major course programs are similar to our contracts for single course programs. We license the various single course programs contained within the degree major course program to the schools for the duration of the degree major course program period. We also provide substantially the same support and other services as we provide for single course programs. We charge schools on a per-student, per-course basis based on our perceived market value of both the individual certifications to be awarded at the completion of each course and the overall degree to be awarded to the student at the completion of the degree major course program.

*Pre-occupational training programs.* Vocational school students in China are generally required to spend one semester prior to graduation in an internship. However, many student's have difficulty finding quality internships that provide the opportunity to hone practical skills prior to entering the job market. To provide these students with more alternatives, we have worked with vocational schools and our IT vendor clients to develop pre-occupational training programs to help meet the internship requirement. These programs, which we began offering to vocational school students in March 2006, provide students with a

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simulated internship environment replicating what these students would experience in an actual internship. Students are organized into small groups and given a series of specific job tasks, with each student's role within the small group changing at intervals during the program period. A typical pre-occupational training program will last two to three months. Software applications using our performance-based testing technology help guide and monitor the student's progress in completing the required tasks and are able to provide constant feedback to enhance the learning experience and improve the student's performance. Upon completion of the pre-occupational training program, the students receive the internship credits necessary to graduate.

To date, we have developed pre-occupational training programs for three different job types: software development, network management and multimedia design, the latter including skills related to Adobe and Macromedia products. Each pre-occupational training program is designed to prepare the student for an actual job position in the IT department of a company or in the software development business.

Our pre-occupational training programs are offered principally to students enrolled in schools offering our course programs and are particularly well-suited for students taking one of our degree major course programs. We cooperate with the school to arrange for space and the provision of resources for the pre-occupational training programs. In some cases we license the materials and provide trained supervisors to the school in exchange for a per-student fee paid by the school. In other cases, we directly collect fees from the students and pay a portion of that fee to the schools that provide space and equipment for conducting the pre-occupational training programs.

### **Test Preparation Solutions**

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

*Online test preparation and training platform for the securities, insurance and banking industries.* Leveraging the increased scale of ATA-delivered securities, insurance and banking professional licensure and certification tests, in November 2006, ATA Online launched online test preparation Internet web sites in coordination with the Securities Association of China. These web sites were launched to provide a flexible and scalable platform aimed at helping test candidates across China to practice and prepare for professional licensure and certification tests delivered by ATA. Test preparation customers gain access to Internet web sites that contain the latest test related topics, preparation materials provided by the test sponsors and streaming video teaching sessions and practice tests developed by ATA. A stored value card-based credit system allows each customer unlimited use of online mock testing during a specified service period, which normally ranges from 90 to 180 days from the date of activation of the card. These cards are sold directly to test candidates or to our test sponsor clients, who then distribute the stored value cards nationwide to interested test candidates. ATA Online launched a similar web site in coordination with the China Banking Association in July 2007 and plans to launch online test preparation solutions for insurance and futures certification tests in early 2008.

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

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*NTET Tutorial Platform — test preparation software for the teaching industry.* In November 2006, we began offering software comprising a comprehensive set of training materials for preparing teachers for certification under the NTET test, which is conducted by China's Ministry of Education and delivered through our test delivery platform and test center network. This software package, which we refer to as our NTET Tutorial Platform, is installed on a school's computer system and offers teachers access to user-friendly and interactive tutorial programs, practice questions and learning exercises through the school's intranet. We sell our NTET Tutorial Platform primarily through provincial and local distributors. We plan to offer additional services for teachers preparing for the NTET test and upgrades to our NTET Tutorial Platform through our web site. We also plan to offer similar software programs to junior and middle schools for use in relation to courses and tests given to students.

### **Our Technology**

We believe our proprietary technologies and software applications are one of our major strengths and we have devoted significant resources to the development of technologies for the creation and delivery of advanced computer-based tests. These include our E-testing platform, test content creation and management tools, advanced performance-based testing technologies and web-based applications.

### ***E-testing Platform***

Our E-testing platform, which we also refer to as ETX, is composed of a set of tools and applications for facilitating the computer-based testing process. ETX includes a network sub-system for managing and transferring test content, test taker information and test results data in a secure and efficient manner and incorporates centralized servers, test site servers, test site management computers and individual testing computers. ETX is compatible with different testing modes, such as daily tests, on-demand tests and centralized tests. All of our ETX applications have been written using C++ and Microsoft .NET and run on all PC-based Windows operating systems, including Windows 98, 2000, 2003 and XP. We have also designed them to support multiple database management systems, including SQL, Oracle and DB2.

Our ETX software applications are designed to handle large-scale testing environments and are capable of transmitting, receiving, processing and storing large amounts of information in a short time span. We currently have the capability to deliver more than 1,000,000 tests per day using our 30 servers. In order to avoid bottle-necks or system crashes during the process of transmitting data for large-scale examinations, we employ load balancing equipment, which is designed to ensure that data flow is evenly distributed among our servers. As our current load balancing equipment can support up to 200 servers, we have the capability to expand our data transmission capacity by deploying additional servers. We periodically upgrade our equipment and software applications to handle increasing testing volume as required.

### ***Test Content Creation and Management Tools***

We have developed proprietary software applications and tools for the creation, illustration and operation of computer-based tests. These software applications include test item authoring tools, which are used to create and revise the visible display and operation of test items, and test engines, which are required to run tests and exchange test data on specific testing platforms. We have developed test item authoring tool applications for our Dynamic Simulation Technology, our Real Environment Technology and our ATA Markup Language. We have also developed other authoring tools, such as a user interface cloning and translation software, for increasing the efficiency of the test content creation and revision process. To meet individual client needs, we have developed test engine applications for integrating tests using our testing technologies on multiple testing platforms. For instance, we have developed test engine applications that allow running Dynamic Simulation Technology tests on our own test delivery platform, on Microsoft's test port and on other test platforms. Our test item authoring tools and test engine applications are all coded in the C++ programming language and are compatible with Windows operating systems.

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We have developed test item management tools for managing test item banks and test question forms for individual tests. These tools offer multiple functions, including the creation and management of test blueprints by test sponsors and the indexing of test items according to properties such as difficulty, question format and knowledge points, thus allowing the compilation of individual test forms in conformance with the test blueprint.

We have also developed our ATA Markup Language for the creation and illustration of knowledge-based test items that require the test taker to respond to specific questions in a traditional question-and-answer format. While less sophisticated than our performance-based testing technologies, ATA Markup Language remains a key technology for our large base of clients who contract with us for the conversion of paper-based tests to computer-based tests. In addition, many performance-based tests also include traditional multiple-choice questions created and run using our ATA Markup Language and related software applications.



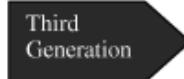
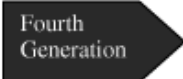
We upgrade and enhance all of our test content creation and management software applications on a regular basis. To reduce time and costs associated with upgrading related materials already used in previous versions, our systems upgrades are all compatible with earlier versions.

### ***Advanced Performance-Based Testing Technologies***

We have developed technologies for delivering both computer-simulated and real-environment performance-based tests. Our Dynamic Simulation Technology, or DST, allows simulation of complicated operating systems, software applications and network environments. We have developed performance-based testing and learning materials based on DST to enable the assessment of a test taker's ability to perform real-world tasks while avoiding the use of real systems, which can be costly and risky in terms of real data or configurations being corrupted when conducting certain tasks, such as disk formatting or multi-server network configurations. DST is designed to provide maximum interactivity and allow the test taker to go down multi-level testing paths where each new action will lead the test taker to a different set of questions and problems.

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The current version of DST, version 4.5, is an interpreter-based simulation technology, which represents our fourth generation of simulation testing technologies, as shown in the table below:

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

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

We have also developed Real Environment Technology, which is another testing technology for creating, illustrating and running performance-based tests. Like DST, our Real Environment Technology allows for the creation of test questions requiring the test taker to operate software applications to solve real-world problems. Unlike DST, however, test content using our Real Environment Technology is built on top of the underlying software application and require the installation of the underlying software applications that the test taker is being asked to operate. Real Environment Technology is particularly suitable for testing MS Office, Adobe Photoshop and Autodesk AutoCAD.

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

### **Web-Based Applications**

ATA Online provides web-based services to and on behalf of clients with related applications, such as a customer service web portal for test candidates and an online payment portal that can be used to collect fees for ATA Online's online test preparation programs. ATA Online's online payment portal is linked to IPS, which we believe is one of the most reputable online payment service providers in China. All of ATA Online's online services and applications may be accessed by users using standard web browsers and do not require installation of custom software on a user's computer. Parts of our test delivery system also operate via the Internet through a closed client-server network between our centralized servers and client computers located at the test sites.

## **Data Storage and Security**

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

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

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

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

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

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

### ***Conduct of the Test***

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

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

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

### **Research and Development**

Research and development is important to our continued success. Our research and development initiatives are designed to improve our existing testing technologies and to develop new and innovative technologies. We conduct our research and development activities primarily in-house but may also from time to time outsource certain research and development activities. We have an experienced team of engineers with expertise in the fields of computing, software, system design, and test design and conversion. Our research and development team consisted of 53 people as of March 31, 2007. We will continue to look selectively for experienced software engineers and other technology talent to further increase our technological capabilities. While we focus on development of technologies that can be commercialized and integrated into our service offerings in the short term, we also invest in the research and development of testing technologies for the medium and long term in preparation for developing next generation and cutting-edge products and services. Our total expenses for research and development were RMB4.9 million, RMB9.3 million and RMB5.3 million (\$0.7 million) for the fiscal years ended March 31, 2006 and 2007 and the six months ended September 30, 2007, respectively.

### **Intellectual Property**

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

We have registered 15 software copyrights relevant to our product and service offerings with the Copyright Protection Center of China.

Our application to register our "ATA" trademark with the China Trademark Office is currently pending. We have also registered 16 domain names relating to our web sites, including [www.ata.net.cn](http://www.ata.net.cn), the primary URL for our web site, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

We have chosen not to obtain any patents for our testing technologies for a number of reasons. Principally, we believe it is the industry norm in China not to obtain patents for technologies that are not in the form of hardware. The process for patenting technologies is cumbersome and generally takes approximately 18 months or more, and due to the prevalence of intellectual property infringement and relatively weak enforcement mechanisms in China, we believe the risks involved in obtaining a patent, which would be publicly accessible, outweigh the potential benefits. Expertise underlying our testing technologies enjoys protection in China as trade secrets under China's Anti-Unfair Competition Law.

### **Clients**

The quality and flexibility of our product and service offerings has attracted a broad base of clients. Our clients principally include Chinese governmental agencies, professional associations, well-known IT vendors and Chinese educational institutions as well as individual test preparation services consumers. The China Banking Association and Chengdu Shiguang Co., Ltd., a distributor of our NTET



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Tutorial Platform software, accounted for 19.5% and 10.8%, respectively, of our total net revenues for the six months ended September 30, 2007. The PRC Ministry of Labor accounted for 12.3% of our total net revenues for the fiscal year ended March 31, 2007. No other client accounted for more than 10% of our total net revenues for the fiscal year ended March 31, 2007 or the six months ended September 30, 2007.

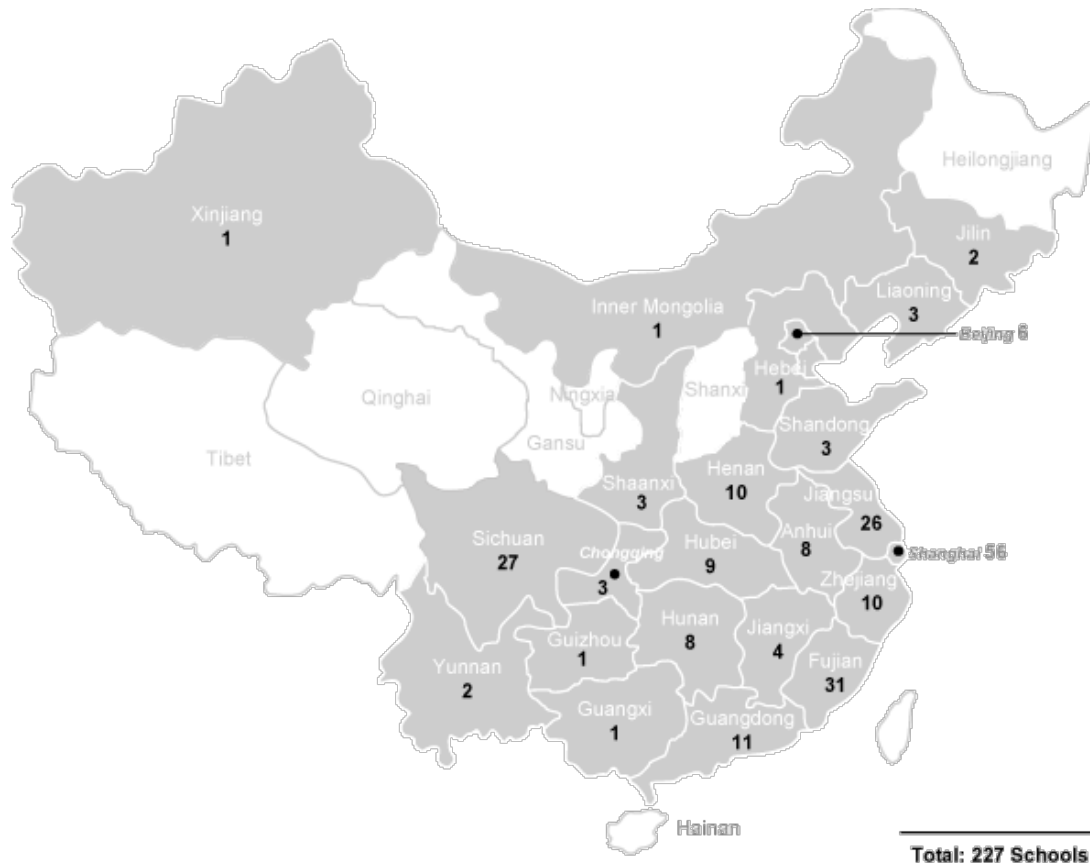
As of September 30, 2007, we had 92 contracts with test sponsors for our computer-based testing services. For the six months ended September 30, 2007, our five largest computer-based testing services clients based on revenue were:

- the China Banking Association, which has been designated by the China Banking Regulatory Commission as the sole administrator of banking industry qualification tests in China;
- the Professional Skills Qualification Center of the PRC Ministry of Labor;
- the Securities Association of China, which has been designated by the China Securities Regulatory Commission as the sole administrator of securities industry qualification tests in China;
- the Testing Center of the PRC Ministry of Education; and
- the China Futures Association, which has been designated by the China Securities Regulatory Commission as the sole administrator of futures industry qualification tests in China.

These five clients represented an aggregate of 36.5% of our total net revenues for the six months ended September 30, 2007.

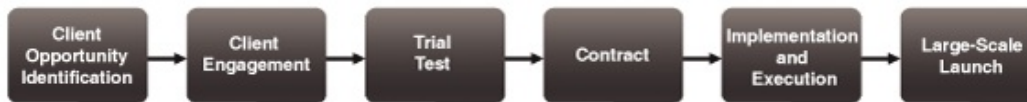
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During the six months ended September 30, 2007, 135 Chinese educational institutions offered our degree major course programs and 118 Chinese educational institutions were offering our single course programs.



## New Business Development

Our business development department, composed primarily of members of our senior management and supported by a professional team, is responsible for identifying and developing new markets and client opportunities for our product and service offerings. We target key governmental agencies and professional associations to help them develop standardized licensure and certification policies. Once we have identified a potential client, we submit an initial proposal outlining the services we would provide. If engaged by the client, we develop and conduct trial tests tailored to the client's needs based on the terms of a memorandum of understanding signed with the client. We generally enter into a final contract with the client only after successful completion of the trial tests. Once the final contract is in place, we complete the test delivery implementation plans and prepare for the large-scale launch of the test through our nation-wide test delivery platform. During the trial test and contract negotiation phases of the client development process, we actively market our test preparation services and ancillary testing services to the client. The following diagram illustrates the key stages in our testing services business development process.



Our track record, expertise, capability and credibility within the testing industry provide us with opportunities to work with governing bodies to develop licensure, certification and testing programs. As an example, we helped arrange to have members of China's securities and banking industries, the Ministry of Health, Ministry of Justice, Ministry of Communications and China Inspection and Quarantine Association meet with their counterparts in Western countries to have them observe and learn industry best practices and experiences for licensure, certification and testing, which can be used as models for China. We also hosted China's first testing-related conference endorsed by the Association of Test Publishers, of which we are the only Asian member. We believe that these business development efforts enhance our industry reputation and allow us to develop new markets with stable long-term client relationships and relatively high entry barriers.

## Sales and Marketing

Our business development department maintains a running master list of tests administered throughout China and all of our contracts for our educational services. We assess on a regular basis how to approach various prospective clients and enhance our relationships with our existing clients, as well as how to increase cross selling opportunities for our products and services. Utilizing our deep industry knowledge, our business development department typically identifies and prioritizes opportunities through analyzing the needs and readiness of our prospective clients and explains our service offerings to and works with each prospective client to secure a first mandate to create a particular computer-based test title or to create a particular course program for an educational institution. We work closely with new and existing clients to develop new or updated test titles and introduce additional educational services on an ongoing basis.

We engage in a variety of marketing activities to promote our product and service offerings. We host and invite potential clients, such as key governmental agencies and governing bodies, to industry conferences on topics such as the development of computer-based testing technologies. We also attend conferences and trade shows to demonstrate and promote our technologies and product and service offerings. We conduct marketing for our career-oriented educational services through promotional activities in cooperation with local governmental departments and educational institutions and through our local sales agents. Our on-campus marketing activities include promoting the IT vendors' certification tests and the relevant educational services, while linking both to our "ATA" brand name, through prominently placed marketing materials like posters and other advertising means. We promote wider recognition of our "ATA" brand by placing our logo prominently outside ATA authorized test centers and in test and course program materials. We use our strong network of educational institution clients and testing partner network

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to attract IT vendor clients that desire to introduce their technologies, products and services into schools across China.

### **Client Service and Support**

We seek feedback from our clients on a regular basis regarding the quality of our technologies, products and services and ideas for improving them. We use this feedback, along with our internal performance review processes, to upgrade our technologies, products and services. We also seek feedback from students and test takers to improve the effectiveness and user-friendliness of our educational service and test preparation program content. Based on this feedback and regular communication we have with test sponsors and course content providers, we upgrade our course program and test preparation materials and exercises.

We provide technical support and training to our test centers and educational institution clients. Under our contracts with our test centers, each test center is provided a set of guidelines setting forth the basic standards, rules and procedures for administering our tests. We also provide training related to all aspects of the test administration process, from equipment setup and troubleshooting to security protocols, and conduct regular reviews of each test center's facilities and operations. As part of our course program services, we provide training for teachers on how to maximize the effectiveness of our learning exercises and offer ongoing technical support and consulting services, including training in relation to any technical upgrades and improvements to the curriculum and learning exercises.

### **Competition**

In relation to computer-based testing services, we compete with domestic Chinese and international computer-based testing service providers. Prometric and Pearson VUE are our main competitors in China. We compete with them primarily based on technology, price, management experience and established infrastructure. We believe our overall testing services and technologies compare favorably with the services and technologies offered by these competitors. Moreover, we believe that our nationwide test center network and test delivery platform provides us with a significant competitive advantage over these two competitors. We believe we are currently the market leader in computer-based testing services in China due to the combination of our experience in and familiarity with the China computer-based testing services market, our advanced technology, our large nationwide network of test centers, our established relationships with key test sponsors and governmental agencies and our competitive cost levels.

In relation to our career-oriented educational services, we face competition from international companies, such as Aptech Limited and NIIT Limited. Aptech Limited operates in China primarily through its joint venture with BeiDa Jade Bird. Although these two companies offer IT-related courses to post-secondary educational institutions in China, based on our market experience and client communications we believe they do not directly compete with our products and services. For example, these two companies design their own course content and exams and provide passing students with their own proprietary certifications, rather than offering course content and certifications designed by well-known IT vendors, as we do. Other than the joint venture between Aptech Limited and BeiDa Jade Bird, we are not aware of any domestic Chinese company that offers educational services similar to or competitive with our career-oriented educational services. As a result, we have to date experienced little pricing pressure due to competition, although we do feel some pressure to maintain a pricing level for our educational services that is affordable for vocational schools that ultimately need to pass such costs on to students in the form of tuition and course fees. This may prevent us from raising prices for our education services significantly in the short term.

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

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

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

### **Employees**

We had 196, 264 and 328 employees as of March 31, 2005, 2006 and 2007, respectively. As of September 30, 2007, we had 340 employees, 102 of which were in sales and marketing, 52 in research and development, 119 in client service and support and 67 in general and administrative functions.

In April 2005, we adopted a share incentive plan, or the 2005 Plan. In January 2008, we adopted our 2008 Employee Share Incentive Plan, or the 2008 Plan. We use our share incentive plans as an additional means to further attract, motivate, retain and reward selected directors, officers, employees and third-party consultants and advisors. For more information, see "Management — Share Incentives — Share Option Plan." We believe these initiatives have contributed to our ability to attract and retain talent.

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

According to our contracts with our employees, our employees are generally prohibited from engaging in any activities that compete with our business during the period of their employment and for two years after termination of their employment with us. Furthermore, all employees are prohibited, for a period of two years following termination, from soliciting other employees to leave us and, for a period of five years following termination, from soliciting our existing clients. However, we may have difficulty enforcing 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.

### **Facilities**

Our principal executive offices are located in approximately 2,170 square meters of office space leased by us at Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, China. We also occupy approximately 1,363 square meters of total leased office space in our subsidiaries and branches located in Shanghai, Fuzhou, Nanjing and Wuhan. We believe that our existing facilities are adequate for our current requirements and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

### **Legal Proceedings**

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

## REGULATION

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

### Regulation of the Software Industry

In China, holders of computer software copyrights enjoy protection under the Copyright Law of the People's Republic of China, or the Copyright Law. Under the Copyright Law, China's State Council and the State Copyright Administration have also promulgated various regulations relating to the protection of software copyrights in China. Under these regulations, computer software that is independently developed and exists in a physical form will be protected, and software copyright owners may license or transfer their software copyrights to others. Registration of software copyrights and exclusive licensing and transfer contracts with the Copyright Protection Center of China (previously, the State Copyright Administration) or its local branches are encouraged. Such registration is not mandatory under Chinese law, but can enhance the protections available to the registering parties. For example, the registration certificate serves an evidentiary function enabling the registering parties to prove they have protectable rights. We have registered 14 software copyrights with the Copyright Protection Center of China.

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

### Regulation of Vocational Education

Chinese laws and regulations impose restrictions on foreign investment in educational institutions in China. However, Chinese laws and regulations do not impose restrictions on foreign investment in companies providing course and test content or related products and services to educational institutions. In addition, the Chinese government has issued a series of circulars and regulations promoting the development of vocational education, including "The Decision to Enhance the Promotion of the Reform and Development of Vocational Education" and "The Decision to Enhance the Development of Vocational Education" published by the State Council, respectively, on September 24, 2002 and October 28, 2005. These circulars and regulations require all levels of governments in China to intensify their support for vocational education and to gradually increase the financial resources that local and provincial governments allocate to vocational education.

### Restrictions on Telecommunication Industry

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

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

- formulating and enforcing telecommunications industry policy, standards and regulations;
- granting licenses to provide telecommunications and Internet services;
- formulating tariff and service charge policies for telecommunications and Internet services;

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- supervising the operations of telecommunications and Internet service providers; and
- maintaining fair and orderly market competition among operators.

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

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

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

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

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

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

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

Our contractual arrangements with ATA Online include a technical support agreement and a strategic consulting service agreement. In addition, ATA Learning has entered into an equity pledge agreement with each of the shareholders of ATA Online pursuant to which each of the shareholders has



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pledged all of his or her interest in ATA Online to ATA Learning as security for the performance of ATA Online's obligations under the technical support agreement and the strategic consulting service agreement. Pursuant to a call option and cooperation agreement with ATA Online and its shareholders, ATA BVI or any third party designated by ATA BVI has the right to acquire, in whole or in part, the respective equity interests in ATA Online of its shareholders or ATA Online's assets when permitted by applicable PRC laws and regulations. However, we do not have any direct ownership interests or direct voting rights in ATA Online.

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

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

However, there are substantial uncertainties regarding the interpretation and application of current or future Chinese laws and regulations, including the laws and regulations governing the enforcement and performance of our contractual arrangements in the event of imposition of statutory liens, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that the Chinese regulatory authorities will not ultimately take a contrary view. If the Chinese government finds that the agreements that establish the structure of our operations in China do not comply with Chinese government restrictions on foreign investment in our industry, we could be subject to severe penalties.

### **Internet Content Provider Licensure Requirements**

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

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

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

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

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of commercial web sites located within Beijing to file their commercial web sites with the Beijing Administration of Industry and Commerce.

ATA Online holds an ICP license issued by the Beijing Telecommunications Administration Bureau, a local branch of the Ministry of Information Industry, or MII, which allows ATA Online to provide Internet content distribution services. This license is essential to the operation of ATA Online's online test preparation services business.

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

### **Regulation of Internet Content**

The Chinese government has promulgated measures relating to Internet content through a number of ministries and agencies, including MII, the Ministry of Culture and the State Press and Publications Administration. These measures specifically prohibit Internet activities that result in the publication of any content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise State security or secrets. If an ICP license holder violates these measures, the Chinese government may revoke its ICP license and shut down its web sites.

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

Pursuant to the Administrative Regulations on Educational Web sites and Online and Distance Education Schools issued by the Ministry of Education in 2000, educational web sites and online education schools may provide education services in relation to higher education, elementary education, pre-school education, teaching education, occupational education, adult education, other education and public educational information services. "Educational web sites" refers to organizations providing education or education-related information services to web site visitors by means of a database or online education platform connected via the Internet or an educational television station through an Internet service provider, or ISP. "Online education schools" refer to education web sites providing academic education services or training services with the issuance of various certificates.

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

According to the Administrative License Law promulgated by the National People's Congress on August 27, 2003 and effective as of July 1, 2004, only laws promulgated by the National People's Congress and regulations and decisions promulgated by the State Council may set down administrative license requirements. On June 29, 2004, the State Council promulgated the Decision on Setting Down Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to be Retained, in which the administrative license for "online education schools" was retained, while the administrative license for "educational web sites" was not retained. ATA Online is not required to obtain a license as an online education school because ATA Online does not intend to offer through its web site academic education services or training services that result in the issuance of a degree or other certification.

### **Regulation of Broadcasting Audio-Video 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

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Networks, or the Broadcasting Rules, in 2004, which became effective on October 11, 2004. The Broadcasting Rules apply to the activities of broadcasting, integrating, transmitting and downloading of audio-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 relating to cultural matters that prohibits private investments in businesses relating to the dissemination of audio-video programs through information networks. As these regulations are relatively new, there are significant uncertainties relating to their interpretation and implementation, including the definition of “audio-video programs” as specified in these regulations. We cannot assure you that ATA Online will be able to obtain a Permit for Broadcasting Audio-Video Programs via Information Network if it is determined that one is required to operate the online test preparation business.

### **Regulation of Information Security**

Internet content in China is also regulated and restricted by the PRC government to protect State security. The National People’s Congress, China’s national legislative body, has enacted a law that may subject to criminal punishment in China any effort to: (1) gain improper entry into a computer or system of strategic importance; (2) disseminate politically disruptive information; (3) leak State secrets; (4) spread false commercial information; or (5) infringe intellectual property rights.

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

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

PRC law requires owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MII and obtain a registration certificate from such registration agencies. A registered domain name owner has an exclusive use right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. We have registered 16 domain names relating to our web sites, including [www.ata.net.cn](http://www.ata.net.cn), the primary URL for our web site, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

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

### **Regulation of Privacy Protection**

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

## **Regulation of Foreign Exchange**

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

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

The exchange rate for conversion of Renminbi into foreign currencies is heavily influenced by intervention in the foreign exchange market by the People's Bank of China. From 1995 until July 2005, the People's Bank of China intervened in the foreign exchange market to maintain an exchange rate of approximately 8.3 Renminbi per U.S. dollar. On July 21, 2005, the Chinese government changed this policy and began allowing appreciation of the Renminbi versus the U.S. dollar. However, the Renminbi is restricted to a rise or fall of no more than 0.5% per day versus the U.S. dollar, and the People's Bank of China continues to intervene in the foreign exchange market to prevent significant short-term fluctuations in the Renminbi exchange rate. Nevertheless, under China's current exchange rate regime, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. The Renminbi appreciated 6.7% versus the U.S. dollar from July 21, 2005 to March 30, 2007. There remains significant international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. dollar.

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

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. Notice 75 states that Chinese residents must register with the relevant local SAFE branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a round-trip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by the Chinese residents.

Our shareholders who are Chinese residents did not establish our offshore companies as part of a round-trip investment to acquire or control through our offshore companies onshore assets or equity interests originally held by such Chinese resident shareholders. Nevertheless, to ensure that we remain in full compliance with all Chinese foreign exchange-related regulations, our Chinese resident shareholders have applied for registration with the Beijing branch of SAFE under Notice 75 in 2006, but were orally informed that the application could not be accepted because Notice 75 does not apply to them. On May 29, 2007, SAFE issued the Notice of Operation Guidance for Notice 75, or Notice 106, according to which Chinese resident shareholders in an offshore company which has at least two years operating history and has made investment in China can apply for registration under Notice 75. There is no deadline for such registration. We have urged our Chinese resident shareholders to register under Notice 75 and they are preparing for such application. However, we cannot assure you that the application will be accepted by

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SAFE. Failure by such shareholders to comply with Notice 75 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

### **Regulation of Overseas Listings**

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

In the opinion of our PRC counsel, Jincheng & Tongda Law Firm, CSRC approval is not required for this offering because the CSRC approval required under the M&A Rule only applies to an offshore company that has acquired a domestic PRC company for the purpose of listing the domestic PRC company's equity interest on an overseas stock exchange, while (i) we obtained our equity interest in each of our PRC subsidiaries by means of direct investment other than by acquisition of the equity or assets of a PRC domestic company and (ii) our contractual arrangements with ATA Online do not constitute the acquisition of ATA Online. See "Risk Factors — Risks Relating to Regulation of Our Business — If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency determines that CSRC approval is required in connection with this offering, this offering may be delayed or cancelled, or we may be subject to penalties."

## MANAGEMENT

### Directors and Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kevin Xiaofeng Ma	44	Chairman of the Board of Directors, Chief Executive Officer
Walter Lin Wang	46	Director, President
Carl Yeung <sup>(1)</sup>	28	Director, Chief Financial Officer
Andrew Yan	50	Director
Lynda Lau <sup>(1)</sup>	40	Director
Hope Ni <sup>(2)</sup>	35	Director
Alec Tsui <sup>(2)</sup>	58	Director
Patrick Tien	50	Vice President of Channel and Sales
Alex Tong	45	Vice President of Business Development
Paul Hsu	42	Vice President of Product Marketing

<sup>(1)</sup> Mr. Yeung and Ms. Lau have agreed to resign from our board of directors effective upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part.

<sup>(2)</sup> Ms. Ni and Mr. Tsui have agreed to become our independent directors effective upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part.

*Kevin Xiaofeng Ma* is co-founder, chairman of the board and chief executive officer of our company. Prior to co-founding our company, Mr. Ma co-founded Dynamic Technology Corporation and served as its chief executive officer from 1996 to 1998. From 1990 to 1996, Mr. Ma served as general manager in the Hainan High-Tech Industry International Cooperation Center. Previously, Mr. Ma gained experience as vice president at the Beijing MDI High-Tech Center, as president at Beijing Zhongjia Integrated Intelligent System Engineering, and as director at China Radio International. Mr. Ma is a member of the board of directors of a number of private enterprises with operations in China. Mr. Ma graduated from Nanjing University with a bachelor's degree in economics.

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

*Carl Yeung* is currently a director and the chief financial officer of our company and will resign from our board of directors effective upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Prior to joining us, Mr. Yeung worked as an analyst and associate at Merrill Lynch (Asia Pacific) Limited from 2002 to 2006. Mr. Yeung holds a bachelor's degree in economics with concentrations in finance and operations management from Wharton School, University of Pennsylvania, and a bachelor's degree in applied science with a concentration in systems engineering from School of Engineering and Applied Sciences, University of Pennsylvania.

*Andrew Yan* is a director of our company. He is the managing partner of SB Asia Investment Fund II, L.P. and president of Softbank Asia Infrastructure Fund. Before joining Softbank Asia Infrastructure Fund in 2001, Mr. Yan was a managing director and the head of the Hong Kong office of Emerging Markets Partnership. From 1991 to 1994, he was the director responsible for strategic planning and business development for the Asia Pacific region at Sprint International Corporation. Mr. Yan has

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also worked as research fellow at the Hudson Institute in Washington D.C., the World Bank and the Economic Restructuring Institute of the State Council of the PRC. Mr. Yan was elected as “Venture Capitalist of the Year” in 2004 by the China Venture Capital Association. He is currently an independent director of three Hong Kong-listed companies, China Oilfield Services Limited, China Resources Land Limited and Stone Group Holdings Limited. Mr. Yan received a master of arts degree from Princeton University and a master of arts degree from Peking University as well as a bachelor’s degree in engineering from the Nanjing Aeronautic Institute.

*Lynda Lau* is currently a director of our company and will resign from our board of directors effective upon the SEC’s declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. She is currently a principal with SAIF Partners, managing SB Asia Infrastructure Fund and SB Asia Investment Fund II, L.P. from 2002 to 2007. Prior to joining SAIF Partners, Ms. Lau worked in ING Barings Securities (HK) Ltd. as the regional telecom research analyst from 1999 to 2001. Ms. Lau has also worked as an associate at Asian Infrastructure Fund Advisers Ltd. and as a research analyst in Credit Lyonnais Securities (Asia) Ltd. and Schroder Securities Asia Limited. Ms. Lau received a bachelor’s degree in computing studies from the Hong Kong Polytechnic University; received a master’s degree in business administration from University of Warwick, UK; and obtained a post-graduate diploma in English and Hong Kong Law (CPE) from Manchester Metropolitan University and University of Hong Kong. She is also a Chartered Financial Analyst (CFA).

*Hope Ni* will serve as our independent director commencing from the SEC’s declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Ms. Ni is currently serving as Vice Chairman of Comtech Group and as a director of KongZhong Corporation, both listed on the Nasdaq Global Select Market. Ms. Ni served as the chief financial officer and secretary for Comtech Group Inc. from August 2004 to December 2007. She also serves on the board of Qianjia Consulting Company, which she founded in 2002. From September 1998 to August 2004, Ms. Ni was an attorney at Skadden, Arps, Slate, Meagher & Flom LLP in New York and Hong Kong specializing in corporate finance and from 1995 to 1996 worked at Merrill Lynch in its investment banking division in New York. Ms. Ni received a juris doctor degree from University of Pennsylvania Law School and a bachelor’s degree in applied economics and business management from Cornell University.

*Mr. Alec Tsui* will serve as our independent director commencing from the SEC’s declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Mr. Tsui is currently an independent non-executive director of a number of listed companies in Hong Kong, including Industrial and Commercial Bank of China (Asia) Limited, China Chengtong Development Group Ltd., COSCO International Holdings, China Power International Development Limited, Synergis Holdings Ltd., Greentown China Holdings Ltd., China BlueChemical Limited, Vertex Group Ltd., China Hui Yuan Juice Holdings Co. Ltd., and Pacific Online Ltd. He was also an independent non-executive director of Melco PBL Entertainment (Macau) Ltd. which is listed in NASDAQ Global Market. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004. He was an advisor and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. He joined the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and became its chief executive in 1997. Prior to that Mr. Tsui served at the Securities and Futures Commission of Hong Kong from 1989 to 1993. Mr. Tsui graduated from the University of Tennessee with a bachelor’s degree and a master of engineering degree in industrial engineering. He completed a program for senior managers in government at the John F. Kennedy School of Government of Harvard University.

*Patrick Tien* is a vice president, in charge of channel and sales, of our company. Prior to joining us, Mr. Tien worked as a project general director at Microsoft Learning from 1991 to 2005. Mr. Tien holds a bachelor’s degree in computer science from Chung Yuan Christian University, and a master’s degree in computer engineering from University of Massachusetts, Lowell.

*Alex Tong* is a vice president, in charge of business development, of our company. Prior to joining us, Mr. Tong worked as the Asia Pacific General Manger at the Royal Institution of Chartered Surveyors from 2003 to 2005. Prior to that, Mr. Tong worked for Thomson Prometric in the position of executive



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director from 1999 to 2003 and as the managing director at Pearson NCS Hong Kong Ltd. from 1997 to 1999. Mr. Tong graduated from University of Nottingham with a bachelor's degree in education and a master's degree of philosophy in education and from the Chinese University of Hong Kong with an executive MBA.

*Paul Hsu* is a vice president, in charge of product development and marketing, of our company. Prior to joining us, Mr. Hsu worked as product marketing director at Microsoft Greater China Region from 1995 to 2006 and worked as a technical group manager at Digital Equipment Corp Taiwan from 1990 to 1995. Mr. Hsu holds a college degree in mechanical engineering from Taiwan DongNan College.

### **Duties of Directors**

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

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

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

### **Terms of Directors**

Upon the closing of this offering, we will have a board of five directors divided into class A, class B and class C directors. Initially, the class A directors will be Kevin Xiaofeng Ma and Walter Lin Wang, the class B director will be Andrew Yan, and the class C directors will be Hope Ni and Alec Tsui. Each class of directors will stand for election every year at our annual general meeting of shareholders on a rotating basis, beginning with our class A directors at the first annual general meeting of our shareholders following completion of this offering. Our chief executive officer, which currently is Kevin Xiaofeng Ma, shall not, while holding office, be subject to retirement or be taken into account in determining the number of directors to retire in any year.

### **Board Practices**

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

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

Our audit committee will consist of Hope Ni and Alec Tsui commencing from the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Hope Ni will be 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 Marketplace

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Rule 4200(a)(15) 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. Upon the completion of this offering, the third seat on our audit committee will be vacant in reliance on Nasdaq Marketplace Rule 4350(a)(1), 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. We intend to seek a third independent director to fill this vacancy within 12 months of this offering.

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;

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- 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 will consist of Andrew Yan, Hope Ni and Alec Tsui commencing from the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Andrew Yan will be 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 Marketplace Rule 4200(a)(15).

Our compensation committee is responsible for:

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

### **Nominations Committee**

Our nominations committee will consist of Kevin Xiaofeng Ma, Andrew Yan and Alec Tsui commencing from the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Kevin Xiaofeng Ma will be the chairman of the nominations committee. Although Nasdaq Marketplace Rules generally require all members of the nominations committee of a listed company to be "independent directors" within the meaning of Nasdaq Marketplace Rule 4200(a)(15), Nasdaq Marketplace Rule 4350(a)(1) 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. We will make our code of ethics and our code of conduct publicly available on our web site. In addition, our board of directors has adopted a

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set of corporate governance guidelines. The guidelines reflect certain guiding principles with respect to our board's structure, procedures and committees. The guidelines are not intended to change or interpret any law, or our amended and restated memorandum and articles of association. The code of ethics, code of conduct and corporate governance guidelines all become effective upon completion of this offering.

### **Compensation of Directors and Executive Officers**

For the fiscal year ended March 31, 2007, we and our subsidiaries paid aggregate cash compensation of approximately RMB3.9 million (\$0.5 million) to our directors and executive officers as a group, and granted to selected directors and executive officers options to acquire an aggregate of 580,400 common shares. We do not pay or set aside any amounts pursuant to a bonus plan or for pension, retirement or other benefits for our officers and directors.

### **Share Incentives**

#### ***Historical Issuance of Options and Warrants***

On May 23, 2003, we granted options to purchase our common shares to certain employees and consultants. We issued to Jianguo Wang, our former senior vice president, and Xiaozhong Luo, our vice president, options to purchase 1,095,890 and 273,973 of our common shares, respectively, for a price of \$0.545 per share in consideration for their contribution to our company up to that time. We also issued a warrant to purchase 547,945 of our common shares for a price of \$0.545 per share to Techina Capital Inc. for its previous service as financial advisor to us. Options held by Jianguo Wang and Xiaozhong Luo were vested as of April 12, 2005 and will expire on May 22, 2013. The warrant held by Techina Capital Inc. was exercisable as of June 30, 2003 and will expire on May 22, 2008.

#### ***Share Option Plan***

We adopted a share incentive plan, or the 2005 Plan, in April 2005. We adopted our 2008 Employee Share Incentive Plan, or the 2008 Plan, in January 2008. Our share incentive plans are intended to promote our success and to increase shareholder value by providing an additional means to attract, motivate, retain and reward selected directors, officers, employees and other eligible persons. An aggregate of 3,310,300 common shares are reserved for issuance under the 2005 Plan. Subject to any amendment of our 2008 Plan by our directors, the maximum aggregate number of common shares that may be issued pursuant to all awards under the 2008 Plan is 336,307 shares, plus an annual increase on January 1 of each calendar year beginning in 2009 equal to the lesser of (x) one percent (1%) of the number of shares issued and outstanding on December 31 of the immediately preceding calendar year, (y) 336,307 shares, and (z) any lesser number of shares determined by our board of directors.

As of the date of this prospectus, we have granted options under the 2005 Plan for the purchase of a total of 3,235,800 common shares to selected directors, officers, employees and individual consultants and advisors, of which 3,069,800 are outstanding. In April 2005, we granted options for the purchase of 1,312,600 shares at an exercise price of \$2.263 per share. In December 2005, we granted options for the purchase of 951,000 shares at an exercise price of \$3.60 per share. In May 2006, we granted options for the purchase of 330,400 shares at an exercise price of \$3.60 per share. In December 2006, we granted options for the purchase of 250,000 common shares at an exercise price of \$3.60 per share. In October 2007, we granted options for the purchase of 391,800 shares at an exercise price of \$3.60 per share. Our options issued under the 2005 Plan in April 2005, December 2005, May 2006 and December 2006 vest over a period of four years, with 25% vesting on the first anniversary of the vesting start date designated in the board resolution granting such options and 2.0833% vesting on the same day as the vesting start date of each calendar month over the subsequent three years. For our options issued under the 2005 Plan in October 2007, 25% vest on January 1, 2008 and the remaining 75% vest in 30 equal monthly installments beginning January 31, 2008. A total number of 1,686,233 options issued under the 2005 Plan were vested and exercisable for common shares as of the date of this prospectus. As of the date of this prospectus, we have not granted any options pursuant to the 2008 Plan.

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Options 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. However, the options granted to Andrew Yan, one of our directors, and Joe Zhou, a former director, provide that the vesting of their options will be accelerated so that the grantee's options become completely vested and exercisable on the date the grantee ceases to be a director of our company. Joe Zhou ceased to be a director of our company in December 2006.

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

Our board of directors may amend, alter, suspend, or terminate our share incentive plans at any time, provided, however, that our board of directors must first seek the approval of the participants of our share incentive plans if such amendment, alteration, suspension or termination would adversely affect the rights of participants under any option granted prior to that date. Without further action by our board of directors, the 2005 Plan will terminate in 2015 and the 2008 Plan will terminate in 2018.

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

<u>Name</u>	<u>Number of Common Shares to be Issued Upon Exercise of Options</u>	<u>Exercise Price per Common Share</u>	<u>Date of Grant</u>	<u>Vesting Start Date</u>	<u>Date of Expiration</u>
Carl Yeung	330,400	\$ 3.60	May 26, 2006	May 1, 2006	May 25, 2016
	187,800	\$ 3.60	October 1, 2007	July 1, 2007	September 30, 2017
Andrew Yan	330,400	\$ 2.263	April 12, 2005	May 1, 2005	April 11, 2015
Patrick Tien	220,000	\$ 3.60	December 16, 2005	January 1, 2006	December 15, 2015
Alex Tong	100,000	\$ 3.60	December 16, 2005	January 1, 2006	December 15, 2015
Paul Hsu	200,000	\$ 3.60	December 27, 2006	October 31, 2006	December 26, 2016

Our board of directors has approved the issuance of options to purchase 50,000 of our common shares to each of Hope Ni and Alec Tsui upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part. These options will vest over a four-year period.

## PRINCIPAL SHAREHOLDERS

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 the date of this prospectus assuming conversion of all of our outstanding preferred shares into common shares, as adjusted to reflect the sale of the ADSs offered in this offering by:

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

and further assuming that the underwriters do not exercise their overallotment option.

	Common Shares Beneficially Owned Prior to This Offering		Shares Beneficially Owned After This Offering	
	Number <sup>(1)</sup>	Percent <sup>(2)</sup>	Number <sup>(1)</sup>	Percent <sup>(2)</sup>
<b>Directors and Executive Officers:</b>				
Kevin Xiaofeng Ma <sup>(3)</sup>	6,148,648	18.3%	6,148,648	14.2%
Walter Lin Wang <sup>(4)</sup>	3,086,936	9.2%	3,086,936	7.1%
Carl Yeung <sup>**</sup>	*	*	*	*
Andrew Yan	*	*	*	*
Lynda Lau <sup>**</sup>	—	—	—	—
Hope Ni <sup>***</sup>	—	—	—	—
Alec Tsui <sup>***</sup>	—	—	—	—
Patrick Tien	*	*	*	*
Alex Tong	*	*	*	*
Paul Hsu	*	*	*	*
Directors and Executive Officers Combined	9,917,391	28.9%	9,917,391	22.5%
<b>Principal Shareholders:</b>				
SB Asia Investment Fund II, L.P. <sup>(5)</sup>	12,707,436	37.8%	12,707,436	29.3%
Able Knight Development Limited <sup>(6)</sup>	6,148,648	18.3%	6,148,648	14.2%
Lijun Mai <sup>(7)</sup>	4,845,000	14.4%	4,845,000	11.2%
Wealth Treasure Management Limited <sup>(8)</sup>	3,086,936	9.2%	3,086,936	7.1%
Jianguo Wang <sup>(9)</sup>	2,095,890	6.0%	2,095,890	4.7%

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

\*\* Mr. Yeung and Ms. Lau have agreed to resign from our board of directors effective upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part.

\*\*\* Ms. Ni and Mr. Tsui have agreed to become our independent directors effective upon the SEC's declaration of effectiveness of our registration statement on Form F-1, of which this prospectus is a part.

(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 the date of this prospectus.

(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 the date of this prospectus. The total number of common shares outstanding as of the date of this prospectus is 33,630,686, assuming conversion of all preferred shares into common shares. The total number of common shares outstanding after completion of this offering will be 43,378,710 assuming the underwriters do not exercise their overallotment option or 44,840,912 if the underwriters exercise their overallotment option in full.

(3) Includes 6,148,648 common shares held by Able Knight Development Limited, which is a British Virgin Islands company ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of the Cayman Islands with Kevin Xiaofeng Ma as the settlor and certain family members of Kevin Xiaofeng Ma as the beneficiaries. Kevin Xiaofeng Ma is the sole director of Able Knight Development Limited. The business address of Able Knight Development Limited is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

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- (4) Includes 3,086,936 common shares held by Wealth Treasure Management Limited. Wealth Treasure Management Limited is a British Virgin Islands company ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of Cayman Islands with Walter Lin Wang as the settlor and one of the beneficiaries. Walter Lin Wang is the sole director of Wealth Treasure Management Limited. The business address of Wealth Treasure Management Limited is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.
- (5) Includes 1,700,000 common shares, 10,123,653 common shares issuable upon conversion of 6,186,478 Series A convertible preferred shares, and 883,783 common shares issuable upon conversion of 883,783 Series A-1 convertible preferred shares held by SB Asia Investment Fund II, L.P., a Cayman Islands limited partnership. The sole general partner of SB Asia Investment Fund II, L.P. is SB Asia Pacific Partners, L.P. The sole general partner of SB Asia Pacific Partners, L.P. is SB Asia Pacific Investment Limited, whose sole shareholder is Asia Infrastructure Investment Limited. Asia Infrastructure Investment Limited is controlled by SB First Singapore Pte Ltd., whose sole shareholder is SOFTBANK Corporation.
- (6) Includes 6,148,648 common shares held by Able Knight Development Limited, which is a British Virgin Islands company ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of the Cayman Islands with Kevin Xiaofeng Ma as the settlor and certain family members of Kevin Xiaofeng Ma as the beneficiaries. Kevin Xiaofeng Ma is the sole director of Able Knight Development Limited. The business address of Able Knight Development Limited is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.
- (7) Includes 1,645,000 common shares held by Mutual Step Holdings Limited, 1,600,000 common shares held by Art Kind Technology Limited and 1,600,000 common shares held by Art Grace Development Limited. Each of Mutual Step Holdings Limited, Art Kind Technology Limited and Art Grace Development Limited is a British Virgin Islands company ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of Cayman Islands with Lijun Mai or certain family members of Lijun Mai as the settlor and beneficiaries. Lijun Mai is the sole director of Mutual Step Holdings Limited. The business address of each of Mutual Step Holdings Limited, Art Kind Technology Limited and Art Grace Development Limited is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.
- (8) Includes 3,086,936 common shares held by Wealth Treasure Management Limited. Wealth Treasure Management Limited is a British Virgin Islands company ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of Cayman Islands with Walter Lin Wang as the settlor and one of the beneficiaries. Walter Lin Wang is the sole director of Wealth Treasure Management Limited. The business address of Wealth Treasure Management Limited is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.
- (9) Includes 1,000,000 common shares held by Pro-Winner Limited, a British Virgin Islands company wholly owned by Jianguo Wang, our former senior vice president, and 1,095,890 common shares issuable upon exercise of options beneficially owned by Pro-Winner Limited.

None of our shareholders will have different voting rights from other shareholders after the closing of this offering. None of the record holders of our outstanding shares prior to this offering resides in the United States.

Immediately prior to the completion of this offering, all of our outstanding preferred shares will be converted into common shares.

None of our existing shareholders has voting rights that will differ from the voting rights of other shareholders after the completion of this offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

### **Recent Transactions Involving Our Securities**

In March 2005, we executed a 100-to-1 share split of our common shares. In March 2005, our board of directors approved the re-issuance of 3,584,680 treasury shares to our shareholders. The estimated fair value of the re-issuance was RMB26.4 million. Out of the total shares issued, 2,730,739 shares were allocated and distributed on a pro rata basis to all shareholders and were accounted for as a share split-up effected in the form of a share dividend. The remaining 853,941 shares were distributed to Kevin Xiaofeng Ma and were accounted for as a non-cash share-based compensation expense. See "Related Party Transactions — Issuance of Common Shares to Our Chairman and Chief Executive Officer." The following share transaction information is presented as if the share split and share dividend discussed above had already occurred.

In January 2005, we repurchased 5,000,000 common shares from Kin-ming Cheng, 1,776,000 common shares from Mingfang Zhang and 388,000 common shares from Shi Chen for a per-share price of \$0.545. The 7,164,000 common shares repurchased in these transactions represented 35.82% of our total



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outstanding shares at the time. Subsequent to these repurchases, these three shareholders no longer owned any shares in our company.

In March 2005, we entered into a share purchase agreement with SB Asia Investment Fund II, L.P., or SAIF, and Winning King Ltd., pursuant to which we issued 6,186,478 Series A convertible preferred shares to SAIF and 441,891 Series A convertible preferred shares to Winning King Ltd. at a price of \$2.263 per preferred share. The following table sets forth the change in shareholdings of our shareholders following the issuance of the Series A convertible preferred shares pursuant to the March 2005 share purchase agreement:

<b>Name of Shareholder</b>	<b>Shares Owned Before Change</b>	<b>Percentage Before Change</b>	<b>Shares Owned After Change</b>	<b>Percentage After Change</b>
Kevin Xiaofeng Ma	8,246,808	50.22%	8,246,808	35.78%
Walter Lin Wang	4,086,936	24.89%	4,086,936	17.73%
Zhenxiu Zheng	485,096	2.95%	485,096	2.10%
Ming Guo	3,601,840	21.93%	3,601,840	15.63%
SB Asia Investment Fund II, L.P.	—	—	6,186,478	26.84%
Winning King Ltd.	—	—	441,891	1.92%

In September 2005 Ming Guo sold 1,700,000 common shares to SAIF, 1,000,000 common shares to Pro-Winner Ltd., a company wholly owned by our former senior vice president Jianguo Wang, and 901,840 to Kevin Xiaofeng Ma, resulting in the following changes to our shareholding structure:

<b>Name of Shareholder</b>	<b>Shares Owned Before Change</b>	<b>Percentage Before Change</b>	<b>Shares Owned After Change</b>	<b>Percentage After Change</b>
Kevin Xiaofeng Ma	8,246,808	35.78%	9,148,648	39.69%
Walter Lin Wang	4,086,936	17.73%	4,086,936	17.73%
Zhenxiu Zheng	485,096	2.10%	485,096	2.10%
Ming Guo	3,601,840	15.63%	—	—
SB Asia Investment Fund II, L.P.	6,186,478	26.84%	7,886,478	34.22%
Winning King Ltd.	441,891	1.92%	441,891	1.92%
Pro-Winner Ltd.	—	—	1,000,000	4.34%

Under the March 2005 share purchase agreement, we issued a warrant to SAIF granting SAIF the right to purchase 883,783 Series A-1 convertible preferred shares at a price of \$3.3945 per preferred share. In May 2006, SAIF exercised this warrant in its entirety, resulting in an increase in SAIF's percentage shareholding from 34.22% to 36.65%.

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In June 2006, Lijun Mai exercised a warrant to purchase 5,479,452 of our outstanding common shares. Ms. Mai obtained this warrant pursuant to the terms of agreements entered into between Ms. Mai and ATA BVI in May 2003 under which Ms. Mai loaned RMB19.0 million (\$2.5 million) to ATA BVI. See “Related Party Transactions — Warrant Granted to a Third Party That Has Become a Significant Shareholder.” The following table sets forth the change in shareholdings of our shareholders following the exercise of this warrant:

<b>Name of Shareholder</b>	<b>Shares Owned Before Change</b>	<b>Percentage Before Change</b>	<b>Shares Owned After Change</b>	<b>Percentage After Change</b>
Kevin Xiaofeng Ma	9,148,648	38.23%	9,148,648	31.10%
Walter Lin Wang	4,086,936	17.08%	4,086,936	13.90%
Zhenxiu Zheng	485,096	2.03%	485,096	1.65%
SB Asia Investment Fund II, L.P.	8,770,261	36.65%	8,770,261	29.82%
Winning King Ltd.	441,891	1.85%	441,891	1.50%
Pro-Winner Ltd.	1,000,000	4.18%	1,000,000	3.40%
Lijun Mai	—	—	5,479,452	18.63%

In July 2007, we adjusted the conversion price of the Series A convertible preferred shares to \$1.3829 per share in accordance with the provisions of our memorandum and articles of association, as a result of which each Series A convertible preferred share became convertible into 1.6364163 common shares. See note 13 to our audited consolidated financial statements.

In October 2007, Kevin Xiaofeng Ma transferred by gift all of his ownership interest in (1) 6,148,648 common shares to Able Knight Development Limited, (2) 1,500,000 common shares to Creation Linkage Development Limited, and (3) 1,500,000 common shares to New Beauty Holdings Limited. Able Knight Development Limited is a company ultimately wholly owned by a trust of which Kevin Xiaofeng Ma is the settlor and certain family members of Kevin Xiaofeng Ma are the beneficiaries. Each of Creation Linkage Development Limited and New Beauty Holdings Limited is a company ultimately wholly owned by a trust of which one or more adult family members of Kevin Xiaofeng Ma are the settlor and beneficiaries.

In December 2007, Walter Lin Wang transferred by gift all of his ownership interest in (1) 3,086,936 common shares to Wealth Treasure Management Limited and (2) 1,000,000 common shares to Valley Joy Limited. Wealth Treasure Management Limited is a British Virgin Islands company ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of Cayman Islands with Walter Lin Wang as the settlor and one of the beneficiaries. Valley Joy Limited is a company ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of Cayman Islands with one or more family members of Walter Lin Wang as the settlor and beneficiaries.

In December 2007, Lijun Mai transferred by gift all of her ownership interest in (1) 1,645,000 common shares to Mutual Step Holdings Limited, (2) 1,600,000 common shares to Art Kind Technology Limited, (3) 1,600,000 common shares to Art Grace Development Limited, and (4) 634,452 common shares to Joy Spread Development Limited. Each of Mutual Step Holdings Limited, Art Kind Technology Limited and Art Grace Development Limited is a British Virgin Islands company ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of Cayman Islands with Lijun Mai or certain family members of Lijun Mai as the settlor and beneficiaries. Joy Spread Development Limited is a British Virgin Islands company ultimately wholly owned by a sister of Lijun Mai.

In December 2007, Zhenxiu Zheng transferred by gift all of his ownership interest in 485,096 common shares to Capitalink Holdings Limited, which is a company wholly owned by Zhenxiu Zheng.

## **Shareholders Agreement and Right of First Refusal and Co-Sale Agreement**

In connection with our sale of Series A convertible preferred shares to SAIF and Winning King Ltd. in March 2005, we and our existing shareholders entered into a Shareholders Agreement. Under this agreement, our preferred shareholders are entitled to certain registration rights, including demand registration rights, piggyback registration rights, and Form F-3 or Form S-3 registration rights. For a more detailed description of these registration rights and the terms upon which they will terminate, see “Description of Share Capital — Registration Rights Under Shareholders Agreement.”

The Shareholders Agreement also provides for other rights enjoyed by holders of our preferred shares, all of which rights will automatically terminate upon the completion of an initial public offering in which:

- the aggregate proceeds to us is equal to or greater than \$100 million (before deduction of underwriters commissions and expenses related to this offering); and
- the valuation of our company as a result of such public offering is equal to or greater than \$300 million.

These rights include (1) the right to elect two of five directors on our board, (2) pre-emptive rights to participate in issuances of new securities by us, excluding, among others, securities issued pursuant to an initial public offering meeting the standards set forth above, and (3) the right to receive certain financial statements, budgets and reports to be prepared by us and to inspect our books on demand.

We and our existing shareholders also entered into a Right of First Refusal and Co-Sale Agreement in March 2005. Under this agreement, holders of our preferred shares have certain rights of first refusal and co-sale rights with respect to any proposed share transfers by any of the holders of our common shares. However, these rights do not apply to transfers pursuant to an initial public offering meeting the standards set forth above, and these rights shall automatically terminate upon the completion of an initial public offering meeting the standards set forth above.

Following establishment of our Cayman Islands holding company, we entered into a Shareholders Agreement and a Right of First Refusal and Co-Sale Agreement, each on the same terms as described above, with the shareholders of our Cayman Islands holding company in November 2006.

## RELATED PARTY TRANSACTIONS

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

Due to PRC regulatory restrictions on foreign ownership of Internet content businesses in China, we operate the online portion of our test preparation solutions business through ATA Online (Beijing) Education Technology Limited, or ATA Online, which is a domestic Chinese company incorporated in the PRC in September 2006 and owned by Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer and Walter Lin Wang, our co-founder, director and president, both of whom are PRC citizens. ATA BVI and ATA Learning (Beijing) Inc., or ATA Learning, one of our wholly owned subsidiaries, have entered into a series of contractual arrangements with ATA Online, including an exclusive technical support agreement, a strategic consulting service agreement and a call option and cooperation agreement. These contractual arrangements also include an equity pledge agreement entered into with each of the shareholders of ATA Online. As a result of these contractual arrangements, under U.S. GAAP, we are considered the primary beneficiary of ATA Online. Accordingly, we consolidate ATA Online's results in our consolidated financial statements. See "Our Corporate Structure — Corporate Structure and Arrangements with Our Affiliated PRC Entity."

The following is a summary of the material provisions of these agreements. For more complete information you should read these agreements in their entirety. Directions on how to obtain copies of these agreements are provided in this prospectus under "Where you can find additional information."

*Technical support agreement, dated October 27, 2006.* Under this agreement, ATA Learning provides ATA Online with exclusive technical support services for the maintenance of ATA Online's servers, networks and other equipment, software and systems. In return, ATA Online pays a quarterly service fee to ATA Learning. The service fee is mutually agreed by both parties, and is determined based on certain objective criteria such as the actual services required by ATA Online and the actual labor costs, as determined by the number of days and personnel involved, incurred by ATA Learning for providing the services during the relevant period. In addition, ATA Online reimburses ATA Learning for out of pocket costs ATA Learning incurs in connection with providing the services. The term of this agreement is ten years, automatically renewable for successive one year terms unless ATA Learning notifies ATA Online of its intention not to renew 30 days before the relevant term expires. ATA Online may not terminate this agreement during its term.

*Strategic consulting service agreement, dated October 27, 2006.* Under this agreement, ATA Learning provides ATA Online with strategic consulting and related services for ATA Online's business, including (1) valuation of new products; (2) industry investigation and survey; (3) marketing and promotion strategies; and (4) other services related to ATA Online's online test preparation services business. The fees for these services must be confirmed by ATA Learning and will be calculated monthly but paid quarterly based on actual time spent providing the services. In addition, ATA Learning has the right to adjust the fees payable by ATA Online in accordance with its performance. The term of this agreement is 20 years, automatically renewable for successive one year terms unless ATA Learning notifies ATA Online of its intention not to renew 30 days before the relevant term expires. If either party fails to comply with this agreement, it shall indemnify all losses incurred by the other party. Each party may terminate this agreement if the other party fails to perform its obligations under this agreement or the representations, warranties or covenants of the other party are materially inaccurate or misleading.

*Equity pledge agreement, dated October 27, 2006, as amended and restated on February 12, 2007.* To secure the payment obligations of ATA Online under the exclusive technical support agreement and the strategic consulting service agreement described above, ATA Online's shareholders have pledged to ATA Learning their entire equity ownership interests in ATA Online. Upon the occurrence of certain events of default specified in this agreement, the pledgee may exercise its rights and foreclose on the pledged equity interest. Under this agreement, the pledgor may not transfer the pledged equity interest without the pledgee's prior written consent. This agreement will also be binding upon successors of the pledgor and transferees of the pledged equity interest. The term of the pledge is the same as the term of

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the strategic consulting service agreement. This agreement may be terminated upon the completion of ATA Online's contractual liabilities under the exclusive technical support agreement and the strategic consulting service agreement as described above. In February 2007, Jianguo Wang transferred all of his equity interest in ATA Online to Walter Lin Wang. We amended and restated the October 2006 agreement to take this transfer into account.

*Loans to the Shareholders of ATA Online, dated October 27, 2006, as amended on February 12, 2007.* ATA BVI entered into loan agreements with each of Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang, the shareholders of ATA Online to extend each of Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang a loan in the amount of RMB0.9 million, RMB50,000 and RMB50,000, respectively, for the sole purpose of investing in ATA Online as ATA Online's registered capital. The initial term of these loans in each case is ten years, which may be extended upon the parties' agreement. Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang can only repay the loans by transferring all of their interest in ATA Online to ATA BVI or to a third party designated by ATA BVI. When Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang transfer their interest in ATA Online to ATA BVI or its designee, if the actual transfer price is higher than the principal amount of the loans, the amount exceeding the principal amount of the loans will be deemed as interest accrued on such loans and repaid by Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang to ATA BVI. ATA BVI also has the right to, but have no obligation to, purchase, or designate a third party to purchase, all or part of their interest in ATA Online at a price equal to the amount of the loans. In February 2007, Jianguo Wang repaid the loan by transferring all of his interest in ATA Online to Walter Lin Wang. As a result, ATA BVI terminated the loan agreement with Jianguo Wang and amended the agreement with Walter Lin Wang to increase the principal of the loan to RMB0.1 million.

*Call option and cooperation agreement, dated October 27, 2006, as amended and restated on February 12, 2007.* Through the call option and cooperation agreement entered into between ATA BVI and ATA Online and its shareholders, ATA BVI or any third party designated by ATA BVI has the right to acquire, in whole or in part, the respective equity interests in ATA Online of its shareholders or ATA Online's assets when permitted by applicable Chinese laws and regulations. The proceeds from the exercise of the call option will be applied to repay the loans under the loan agreement described above. This agreement can only be terminated with the unanimous consent of all parties, except that ATA BVI may terminate this agreement with 30 days prior notice to the other parties. In February 2007, Jianguo Wang transferred all of his equity interest in ATA Online to Walter Lin Wang. We amended and restated the October 2006 agreement to take this transfer into account.

### **Share Repurchases and Private Placement**

In March 2005, we executed a 100-to-1 share split of our common shares. In March 2005, our board of directors approved the re-issuance of 3,584,680 treasury shares to our shareholders. The estimated fair value of the re-issuance was RMB26.4 million. Out of the total shares issued, 2,730,739 shares were allocated and distributed on a pro rata basis to all shareholders and were accounted for as a share split-up effected in the form of a share dividend. The remaining 853,941 shares were distributed to Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer, and were accounted for as a non-cash share-based compensation expense. The following share transaction information is presented as if the share split and share dividend discussed above had already occurred.

In January 2005, we repurchased 5,000,000 common shares from Kin-ming Cheng, 1,776,000 common shares from Mingfang Zhang and 388,800 common shares from Shi Chen for a per-share price of \$0.545. The 7,164,000 common shares repurchased in these transactions represented 35.82% of our total outstanding shares at the time. Subsequent to these repurchases, these three shareholders no longer owned any shares in our company.

In March 2005, we entered into a share purchase agreement with SB Asia Investment Fund II, L.P., or SAIF, and Winning King Ltd., pursuant to which we issued 6,186,478 Series A convertible preferred shares to SAIF and 441,891 Series A convertible preferred shares to Winning King Ltd. at a

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price of \$2.263 per preferred share. In July 2007, we adjusted the conversion price of the Series A convertible preferred shares to \$1.3829 per share in accordance with the provisions of our memorandum and articles of association, as a result of which each Series A convertible preferred share became convertible into 1.6364163 common shares. See note 13 to our audited consolidated financial statements. Under the March 2005 share purchase agreement, we issued a warrant to SAIF granting SAIF the right to purchase 883,783 Series A-1 convertible preferred shares at a price of \$3.3945 per preferred share. In May 2006, SAIF exercised this warrant in its entirety.

### **Shareholders Agreement and Right of First Refusal and Co-Sale Agreement**

In connection with our sale of Series A convertible preferred shares to SAIF and Winning King Ltd. in March 2005, we and our existing shareholders entered into a Shareholders Agreement. Under this agreement, our preferred shareholders are entitled to certain registration rights, including demand registration rights, piggyback registration rights, and Form F-3 or Form S-3 registration rights. For a more detailed description of these registration rights and the terms upon which they will terminate, see "Description of Share Capital — Registration Rights Under Shareholders Agreement."

The Shareholders Agreement also provides for other rights enjoyed by holders of our preferred shares, all of which rights will automatically terminate upon the completion of an initial public offering in which:

- the aggregate proceeds to us is equal to or greater than \$100 million (before deduction of underwriters commissions and expenses related to this offering); and
- our valuation as a result of such public offering is equal to or greater than \$300 million.

These rights include (1) the right to elect two of five directors on our board, (2) pre-emptive rights to participate in issuances of new securities by us, excluding, among others, securities issued pursuant to an initial public offering meeting the standards set forth above, and (3) the right to receive certain financial statements, budgets and reports to be prepared by us and to inspect our books on demand.

We and our existing shareholders also entered into a Right of First Refusal and Co-Sale Agreement in March 2005. Under this agreement, holders of our preferred shares have certain rights of first refusal and co-sale rights with respect to any proposed share transfers by any of the holders of our common shares. However, these rights do not apply to transfers pursuant to an initial public offering meeting the standards set forth above, and these rights shall automatically terminate upon the completion of an initial public offering meeting the standards set forth above.

Following establishment of our Cayman Islands holding company, we entered into a Shareholders Agreement and a Right of First Refusal and Co-Sale Agreement, each on the same terms as described above, with the shareholders of our Cayman Islands holding company in November 2006.

### **Warrants Granted to a Third Party That Has Become a Significant Shareholder**

In April 2002, we entered into a loan agreement with Lijun Mai pursuant to which ATA Testing borrowed an unsecured loan of RMB19.0 million bearing interest at 20% per annum from Ms. Mai. The loan was due for repayment in April 2004.

In May 2003, we entered into a revised agreement with Ms. Mai amending the terms of the aforementioned loan agreement. Under the revised agreement the maturity of the loan was extended to May 2005, no interest was chargeable by Ms. Mai to ATA Testing from that date, and all accrued interest payable by ATA Testing as of that date was waived. In consideration for these amendments to the original loan agreement, we granted a warrant to Ms. Mai to purchase up to 20% of our fully diluted outstanding common shares for an aggregate exercise price of RMB19.0 million, if certain conditions were met. The number of common shares Ms. Mai was entitled to purchase under the warrant was determined to be 5,479,452 shares on the date of issuance. Ms. Mai did not require repayment of the loan (instead it became a demand loan) and continued to waive all interest while we agreed to extend the maturity of the

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warrant to the earlier of 30 days after the repayment of the loan or 30 days after our completion of an initial public offering. The RMB19.0 million loan was repaid in its entirety in May 2006, and the warrant was exercised in full for the purchase of 5,479,452 shares in June 2006.

### **Issuance of Common Shares to Our Chairman and Chief Executive Officer**

In March 2005, we issued 853,941 of our common shares to Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer, to reward his past performance.

### **Transactions with Yinchuan Economic and Technological Development Zone Investment Holding Co. Ltd., or Yinchuan Holding**

Upon the formation of ATA Learning in 2003, Yinchuan Holding contributed RMB30.0 million in cash for a 60% equity ownership interest in ATA Learning. We were granted a call option that allowed us to acquire Yinchuan Holding's 60% equity interest for RMB30.0 million, and Yinchuan Holding had a put option that, upon exercise, obligated us to purchase Yinchuan Holding's 60% equity interest for RMB30.0 million. Both the call option and put option expired the earlier of (i) the end of the fourth fiscal year end following ATA Learning's formation or (ii) the point when ATA Learning reached an accumulative net profit of RMB30.0 million. On May 9, 2005, we exercised the call option to acquire the remaining 60% of the equity interest in ATA Learning from Yinchuan Holding for RMB30.0 million.

In December 2003, ATA Learning loaned RMB20.0 million to its investor, Yinchuan Holding, and a subsidiary of Yinchuan Holding at the base lending rate prescribed by the People's Bank of China. The loan was originally due for repayment in December 2004. The loan period was subsequently extended until repaid with interest in June 2005.

In February 2003, ATA Testing borrowed RMB5.0 million from Yinchuan Holding. The balance was unsecured, interest-free and repayable on demand. In 2005, Yinchuan Holding agreed to waive RMB2.0 million out of the total loan balance of RMB5.0 million. ATA Testing repaid the remaining RMB3.0 million in June 2005.

### **Transactions with Jiangsu ATA Software Co. Ltd., or ATA Jiangsu**

In March 2002, ATA Testing entered into an agreement with ATA Jiangsu whereby ATA Testing assigned its interests and rights in certain service contracts to ATA Jiangsu. ATA Testing estimated that these service contracts would generate revenue for ten years and that ATA Testing would provide ongoing technical support to ATA Jiangsu during that period. During the years ended December 31, 2003 and 2004 and the three months ended March 31, 2005, ATA Testing received advances from ATA Jiangsu as working capital and ATA Jiangsu paid certain operating expenses on behalf of ATA Testing. In December 2002 and April 2003, during the transition period of service contracts assigned to ATA Jiangsu, ATA Testing received service fees from customer on behalf of ATA Jiangsu. As of March 31, 2005, the total balance due from ATA Testing to ATA Jiangsu was RMB1.5 million. In December 2005, ATA Jiangsu commenced voluntary winding up, which was completed in May 2006, after which none of the above amounts remain outstanding to ATA Jiangsu.

### **Loans to Our Shareholders, Members of Our Management and Companies Controlled by Our Shareholders or Members of Our Management**

Our subsidiaries have in the past made loans and advances to certain of our shareholders and members of our management. During the period from April 2004 through the date of this document, the maximum aggregate amount of outstanding balances due on such loans and advances was RMB3.5 million. All of these loans and advances were unsecured and non-interest bearing. There are no outstanding amounts due on these loans as of the date of this prospectus.

We also received advances from our shareholders and members of our management for operating, investing and financing activities. All such advances have been repaid as of the date of this prospectus.



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In 2002 ATA Testing borrowed an unsecured interest-free loan of RMB0.8 million, repayable on demand, from Tian Xing, a subsidiary of Shanghai Mingshen Development Co. Ltd., or Minshen. Kin-ming Cheng, our shareholder prior to January 2005, was a director of Mingshen until July 2004. The loan was repaid in full in July 2005.

During the fiscal year ended March 31, 2006, ATA Testing extended unsecured interest-free loans in the aggregate amount of approximately RMB0.5 million, repayable on demand, to Keying Shiji Co. Ltd., or Keying. Two of our executive officers own 90% and 10% equity interest, respectively, of Keying. The entire RMB0.5 million due under these loans was repaid in full in December 2006.

## DESCRIPTION OF SHARE CAPITAL

As of the date of this prospectus, our authorized share capital consists of 40,000,000 common shares, par value \$0.01 per share, and 10,000,000 preferred shares, par value \$0.01 per share. As of the date of this prospectus, 21,900,132 common shares, 6,628,369 Series A convertible preferred shares convertible into 10,846,771 common shares, 883,783 Series A-1 convertible preferred shares convertible into 883,783 common shares, warrants to purchase 674,748 common shares and options to purchase 4,439,663 common shares are issued and outstanding. Immediately prior to completion of this offering, all of our issued and outstanding preferred shares will be converted into common shares and our authorized share capital will be increased to \$5,000,000 divided into 500,000,000 common shares, par value \$0.01 per share.

We were incorporated as an exempted company with limited liability under the Companies Law (2004 Revision) Cap. 22 of the Cayman Islands, or the Companies Law, on September 22, 2006. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their 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 Law, including the filing of an annual return of its shareholders with the Registrar of Companies;
- does not have to make its register of shareholders open to inspection; and
- may obtain an undertaking against the imposition of any future taxation.

Upon the completion of this offering, our affairs will be governed by our third amended and restated memorandum and articles of association and the Companies Law. The following summarizes the material terms of our third amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our common shares. This summary is not complete, and you should read the form of our amended and restated memorandum and articles of association, which will be filed as exhibits to the registration statement of which this prospectus is a part.

The following discussion primarily concerns common shares and the rights of holders of common shares. The holders of ADSs will not 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 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 the ADSs. See "Description of American Depositary Share — Withdrawal of Shares Upon Cancellation of ADSs."

### 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 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 third amended and restated 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.

Notwithstanding that a meeting is called by shorter notice than that mentioned above, but, subject to applicable regulatory requirements, it 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 common shares giving that right.

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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. 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. However, the absence of a quorum will not preclude the appointment of a chairman. 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 third amended and restated 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 for the time being attached to any shares, at any general meeting 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 on a poll every shareholder present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly appointed representative) shall have one vote for each fully paid share which such shareholder is the holder.

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 shall direct.

Any shareholder may petition the Grand Court of the Cayman Islands that 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 third amended and restated 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

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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 third amended and restated 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 Law, divide among our shareholders in specie or kind the whole or any part of our assets (whether or not they shall consist of property 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 the whole or 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 assets, shares or other securities 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 third amended and restated 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 Law, 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 third amended and restated 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 by the creation or issue of further shares ranking *pari passu* therewith.

## **Alteration of Capital**

We may from time to time by 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 amount 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 its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law;
- sub-divide our shares or any of them into shares of smaller amount than is fixed by our third amended and restated memorandum of association, subject nevertheless to the Companies Law, 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 or other special rights, over, or may have such deferred 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 special resolution, subject to any confirmation or consent required by the Companies Law, reduce our share capital or any capital redemption reserve in any manner authorized by law.

## **Transfer of Shares**

Subject to any applicable restrictions set forth in our third amended and restated 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 Stock Market Inc. 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 Stock Market Inc. 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 advertisement in such one or more newspapers or by any other means in accordance with the requirements of the Nasdaq Stock Market Inc.,

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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.

### **Share Repurchase**

We are empowered by the Companies Law and our third amended and restated 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 Law, our third amended and restated memorandum and articles of association and to any applicable requirements imposed from time to time by the Nasdaq Stock Market Inc., the U.S. Securities and Exchange Commission, or the SEC, or by any other recognized stock exchange on which our securities are listed.

### **Dividends**

Subject to the Companies Law, 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 Law.

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 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 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 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

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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 in third bullet point 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 third amended and restated 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 Stock Market Inc. 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 Law is modeled after similar laws in the United Kingdom but does not follow recent changes in United Kingdom laws. In addition, the Companies Law 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 Law applicable to us and the laws applicable to companies incorporated in the United States.

*Mergers and Similar Arrangements.* Cayman Islands law does not provide for mergers as that expression is understood under United States corporate law. However, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement in question is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three fourths 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 would have the right to express to the court the view that the transaction should not be approved, the court can be expected to approve the arrangement if it satisfies itself that:

- the company is not proposing to act illegally and the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;



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- the arrangement is such as a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law or that would amount to a “fraud on the minority.”

When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offerer may, within a two-month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection may be made to the Grand Court of the Cayman Islands but is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction are thus approved, any dissenting shareholders would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States 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 and 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, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or beyond the scope of its authority;
- the act complained of, although not beyond the scope of its authority, could be effected duly if authorized by more than a simple majority vote which 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 amended and restated 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.

### **Board of Directors**

We are managed by our board of directors. Our third amended and restated memorandum and articles of association provide that the number of our directors will be fixed from time to time pursuant to a special resolution of our shareholders, but must consist of not less than two directors. There is no maximum number of directors unless otherwise determined by our shareholders in general meeting. Any director on our board may be removed by way of a special resolution of our shareholders. Any vacancies on our board of directors can be filled by way of an ordinary resolution of our shareholders and additions to the existing board of directors can be filled by way of a special resolution of our shareholders. Any vacancies on our board of directors or additions to the existing board of directors can also be filled by the affirmative vote of a simple majority of the remaining directors, although this may be less than a quorum where the number of remaining directors falls below the minimum number fixed by our board of directors. Our directors are not required to hold any of our shares to be qualified to serve on our board of directors.

Meetings of our board of directors may be convened at any time deemed necessary by our secretary on request of a director or by any director. Advance notice of a meeting may be given in writing or by telephone or in such other manner as the board of directors may from time to time determine. A meeting of our board of directors shall be competent to make lawful and binding decisions if at least two of the members of our board of directors are present or represented unless the board has fixed any other number. At any meeting of our directors, each director is entitled to one vote.

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Questions arising at a meeting of our board of directors are required to be decided by simple majority votes of the members of our board of directors present or represented at the meeting. In the case of a tie vote, the chairman of the meeting shall have an additional or casting vote. Our board of directors may also pass resolutions without a meeting by unanimous written consent.

Our board of directors is divided into different classes, namely class A directors, class B directors and class C directors. At the first annual general meeting after this offering, all class A directors shall retire from office and be eligible for re-election. At the second annual general meeting after this offering, all class B directors shall retire from office and be eligible for re-election. At the third annual general meeting after this offering, all class C directors shall retire from office and be eligible for re-election. At each subsequent annual general meeting after the third annual general meeting after this offering, one-third of our directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation. A retiring director shall be eligible for re-election. The directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any director who wishes to retire and not to offer himself for re-election. Any further directors so to retire shall be those of the other directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. However, our chief executive officer shall not, while in such office, be subject to retirement or be taken into account in determining the number of directors to retire in any year.

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

Pursuant to our third amended and restated articles of association, our board of directors has established an audit committee, a compensation committee and a nominations committee.

### **Issuance of Additional Common shares or Preferred shares**

Our third amended and restated 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 amended and restated memorandum and articles of association authorizes 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 authorized but unissued. 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.

## Registration Rights Under Shareholders Agreement

Under the terms of the shareholders agreement among all of our existing shareholders, from the date that is six months after the closing of our initial public offering, certain shareholders holding at least 25% of our then outstanding registrable securities may, up to a maximum of three times, require us to effect the registration and/or qualification for sale of all or part of the registrable securities then outstanding.

Under the shareholders agreement, registrable securities include (1) our common shares issuable or issued upon conversion of our preferred shares, (2) any of our common shares issued as a dividend or other distribution with respect to, in exchange for, or in replacement of, the shares referenced in (1). Upon completion of this offering, the holders of 11,730,554 of our common shares, or approximately 27.0% of the outstanding shares immediately after the offering, or 26.2% if the underwriters exercise their option to purchase additional ADSs in full, or their transferees will be entitled to request that we register their common shares under the Securities Act following the expiration of the lockup agreements described elsewhere in this prospectus.

Holders of registrable securities also have “piggyback” registration rights, pursuant to which they may require us to register all or any part of the registrable securities then held by such holders when we register any common shares, but excluding any registration relating to any employee benefit plan or relating to a corporate reorganization.

Holders of registrable securities may require us to effect a registration statement on Form S-3 or Form F-3, as applicable, for a public offering of registrable securities so long as we are entitled to use Form S-3 or Form F-3 for such offering and the reasonably anticipated aggregate price to the public, net of all underwriting discounts, is more than \$1 million. Holders of registrable securities may demand a registration on Form F-3 on unlimited occasions, but we are not required to effect more than four such registrations in any twelve month period.

However, we are not obligated to effect any registration, whether or not on Form S-3 or Form F-3:

- if within ten days of the receipt of any request, we give notice to the initiating holders of our bona fide intention to effect the filing for our own account of a registration statement of our common shares within 60 days of receipt of that request, and we are actively employing in good faith our reasonable best efforts to cause such registration to become effective within 60 days of the initial filing, and that the holders are entitled to join such registration;
- within six months following any registration of our securities, if the holders are entitled to join such registration.
- in any particular jurisdiction in which we would be required solely as a result of such registration to execute a general consent to service of process in effecting such registration, qualification or compliance, unless we are already subject to service of process in such jurisdiction;

We are not obligated to effect any demand registration or registration on Form S-3 or Form F-3 if we furnish to the holders of registrable securities a certificate signed by our chief executive officer stating that, in the good faith judgment of our board of directors, it would be materially detrimental to us or our shareholders for a registration statement to be filed in the near future, in which event we have the right to defer the filing of the registration statement, no more than once during any 12-month period, for the period during which such filing would be seriously detrimental but in any event for a period not to exceed 90 days from the receipt of the request to file such registration statement.

If any of the offerings involves an underwriting, the managing underwriter of any such offering has certain rights to limit the number of shares included in such registration. However, where the number of registrable securities included in an underwritten public offering other than our initial public offering is to be reduced, the securities other than registrable shares must be reduced before any registrable securities

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may be reduced, and the number of our registrable shares that are included in such offering may not be reduced to less than 30% of the aggregate number of our registrable shares requested to be included in such underwriting.

We are generally required to bear all of the registration expenses, excluding underwriting discounts, incurred in connection with all demand, piggyback and Form S-3 or Form F-3 registration, unless any request is subsequently withdrawn at the request of a majority in interest of the holders requesting such registration.

The foregoing demand, piggyback and Form S-3 or Form F-3 registration rights will terminate upon the earlier of the date that is eight years after March 31, 2005 or the date that is four years after the effective date of an initial public offering in which:

- the aggregate proceeds to us from this offering is equal to or greater than \$100 million (before deduction of underwriters commissions and expenses related to this offering); and
- the valuation of our company as a result of such public offering is equal to or greater than \$300 million.

### **Inspection of Books and Records**

Holders of our common shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See "Where You Can Find Additional Information."

## DESCRIPTION OF AMERICAN DEPOSITARY SHARES

### American Depositary Shares

Citibank, N.A. 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, 14<sup>th</sup> Floor, New York, New York 10013, U.S.A. American Depositary Shares are frequently referred to as "ADSs" and represent ownership interests in securities that are on deposit with the depositary bank. ADSs may be represented by certificates that are commonly known as "American Depositary Receipts" or "ADRs." The depositary bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank Hong Kong, located at 10/ F, Harbour Front (II), 22, Tak Fung Street, Hung Hom, Kowloon, Hong Kong.

We appoint Citibank, N.A. as depositary bank pursuant to a deposit agreement. A copy of the deposit agreement is on file with the SEC under cover of a Registration Statement on Form F-6. You may obtain a copy of the deposit agreement from the SEC's Public Reference Room at Headquarters Office, 100 F Street, N.E., Room 1580, Washington, D.C. 20549 and from the SEC's website (<http://www.sec.gov>). Please refer to Registration Number 333-148641 when retrieving such copy.

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. We urge you to review the deposit agreement in its entirety.

Each ADS represents the right to receive two common shares on deposit with the custodian. An ADS will also represent 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.

If you become an owner of ADSs, you will become a 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 owner of ADSs and those of the depositary bank. As an ADS holder 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.

As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name, through a brokerage or safekeeping 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" or "DRS"). 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, or 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. 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.

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### **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 deposit the funds with the custodian. Upon receipt of confirmation of the deposit of the requisite funds, the depositary bank will arrange 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 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.

### **Distributions of Shares**

Whenever we make a free distribution of common shares for the securities on deposit with the custodian, we will deposit the applicable number of shares with the custodian. Upon receipt of confirmation of such deposit, 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 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 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 shares so distributed.

No such distribution of new ADSs will be made if it would violate a law (i.e., the U.S. securities laws) 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; or

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- 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 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; or
- 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.

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 mail notice of the redemption to the holders.

The custodian will be instructed to surrender the 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



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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 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, 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 or call for the exchange of your existing ADSs for new ADSs. 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.

When 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 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 certificate is properly endorsed or otherwise in proper form for transfer;

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- 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 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 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.

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 "Description of Share Capital — 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 shares held by such person and the depositary shall vote or cause the custodian to vote all the

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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 shares held as of record date for the meeting and the depositary shall vote or cause the custodian to vote the shares on deposit in respect of ADSs for which holder of ADSs have timely given voting instructions to the depositary.

If the depositary timely receives voting instructions from a holder of ADSs that fail to specify the manner in which the depositary is to vote the shares represented by that holder's ADSs, the depositary will deem the holder to have voted in favor of the items set forth in the voting instructions. If the depositary does not timely receive voting instructions from a holder of ADSs and we have timely provided the depositary with our notice of meeting and related materials, that holder will be deemed, and the depositary will deem that holder to have instructed the depositary to give a discretionary proxy to a person designated by us to vote the shares represented by the ADSs at our discretion, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary 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.

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. Securities for which no voting instructions have been received will not be voted.

### **Fees and Charges**

As an ADS holder, you will be required to pay the following service fees to the depositary bank:

#### Service Fees

##### Issuance of ADSs

Up to 5¢ per ADS issued

##### Cancellation of ADSs

Up to 5¢ per ADS canceled

##### Distribution of cash dividends or other cash distributions

Up to 2¢ per ADS held

##### Distribution of ADSs pursuant to share dividends, free share distributions or exercise of rights

Up to 5¢ per ADS held

##### Distribution of securities other than ADSs or rights to purchase additional ADSs

Up to 5¢ per share (or share equivalent) held

##### Depositary Services Fee

Up to 2¢ per ADS held on the applicable record date(s) established by the depositary

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### Transfer of ADRs

\$1.50 per certificate presented for transfer

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

- Fees for the transfer and registration of common shares charged by the registrar and transfer agent for the common shares in the Cayman Islands (i.e., upon deposit and withdrawal of common shares).
- Expenses incurred for converting foreign currency into U.S. dollars.
- Expenses for cable, telex and fax transmissions and for delivery of securities.
- Taxes and duties upon the transfer of securities (i.e., when common shares are deposited or withdrawn from deposit).
- Fees and expenses incurred in connection with the delivery or servicing of common shares on deposit.

We have agreed to pay certain other charges and expenses of the depositary bank. 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.

Citibank, N.A., as depositary bank, has separately agreed to make available to us a portion of the net fees (after deduction of custody fees for the shares on deposit) it collects from ADS holders. These amounts will be available to cover certain expenses related to the establishment and maintenance of the ADR program, including:

- legal fees and expenses;
- ADS listing fees;
- investor relations fees and expenses including training and travel expenses for our investor relations staff;
- mailing and printing fees (i.e. for annual reports and proxy statements); and
- website and web casting expenses.

Neither the depositary bank nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of fees to be charged to holders of ADSs and (iii) our reimbursable expenses related to the ADR program are not known at this time.

Depositary fees payable upon the issuance and cancellation of ADSs are generally paid to the depositary bank by the brokers receiving the newly issued ADSs from the depositary bank and by the brokers delivering the ADSs to the depositary bank for cancellation. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary service fee are charged by the depositary bank 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 bank 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 bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank 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

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clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depository banks.

In the event of refusal to pay the depository fees the depository 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 depository fees from any distribution to be made to the ADS holder.

### **Amendments and Termination**

We may agree with the depository 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 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 depository bank to terminate the deposit agreement. Similarly, the depository bank may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depository 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 securities held on deposit (as described below), 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 depository bank in respect of those common shares on the same terms as prior to the termination. During such period, the depository 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 depository bank may sell the securities held on deposit. The depository 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 depository 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 depository bank for cancellation.

### **Books of Depository**

The depository bank will maintain ADS holder records at its depository 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 depository 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 are prevented or forbidden from acting on account of any law or regulation, any provision of our amended and restated 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 amended and restated 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 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.

## **Pre-Release Transactions**

The depositary bank may, in certain circumstances, issue ADSs before receiving a deposit of common shares or release common shares before receiving ADSs for cancellation. These transactions are commonly referred to as "pre-release transactions." The deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (e.g., the need to fully collateralize, the type of collateral required, the representations required from brokers, etc.). The depositary bank may retain the compensation received from the pre-release transactions.

## **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.



## SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common shares or our ADSs, and while application has been made for our ADSs to be quoted on the Nasdaq Global Market, we cannot assure you that an active trading market for our ADSs will develop or be sustained after this offering. Future sales of substantial amounts of our ADSs in the public market following this offering or perception that such future sales may occur could adversely affect market price prevailing from time to time and could impair our ability through sale of our equity securities. We currently do not expect that an active trading market will develop for our common shares not represented by the ADSs.

Upon completion of this offering, we will have outstanding ADSs representing approximately 22.5% of our common shares, or 25.0% if the underwriters exercise their option to purchase additional ADSs in full. All of the ADSs sold in this offering and the common shares they represent will be freely transferable without restriction or further registration under the Securities Act, except for any ADSs purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act. Rule 144 defines an affiliate of a company as a person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, our company. All outstanding common shares prior to this offering are "restricted securities" as that term is defined in Rule 144 because they were issued in a transaction or series of transactions not involving a public offering. Restricted Securities, in the form of ADSs or otherwise, may be sold only if they are the subject of an effective registration statement under the Securities Act or if they are sold pursuant to an exemption from the registration requirement of the Securities Act such as those provided for in Rules 144 or 701 promulgated under the Securities Act, which rules are summarized below. Restricted common shares may also be sold outside of the United States to non-U.S. persons in accordance with Rule 904 of Regulation S under the Act. This prospectus may not be used in connection with any resale of our ADSs acquired in this offering by our affiliates.

### Lock-Up Agreements

We have agreed for a period of 180 days after the date of this prospectus not to sell, transfer or otherwise dispose of, and not to announce an intention to sell, transfer or otherwise dispose of, without the prior written consent of the representative:

- any common shares or depositary shares representing common shares;
- any shares of our subsidiaries or controlled affiliates or depositary shares representing those shares;
- any securities that are substantially similar to the common shares or depositary shares referred to above, including any securities that are convertible into, exchangeable for or otherwise represent the right to receive common shares, other shares or depositary shares referred to above;

in each case other than pursuant to the exercises of options under employee share option plans existing on the date of this prospectus and described in this prospectus.

In addition, we have agreed to cause each of our subsidiaries not to sell, transfer or otherwise dispose of, and not to announce an intention to sell, transfer or otherwise dispose of, for a period of 180 days after the date of this prospectus, without the prior written consent of the representative, any of the securities referred to above.

Furthermore, each of our shareholders, directors and executive officers have entered into a similar 180 day lock-up agreement. These parties collectively own 100% of our outstanding common shares prior to this offering.

These restrictions do not apply to (1) the ADSs and the common shares representing such ADSs being offered in connection with this offering and (2) up to ADSs and the common shares representing

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such ADSs that may be purchased by the underwriters if their option to purchase additional ADSs is exercised in full.

We are not aware of any plans by any significant shareholder to dispose of significant numbers of ADSs or common shares. We cannot assure you, however, that one or more existing shareholders will not dispose of significant numbers of ADSs or common shares. See “Principal Shareholders” for a description of our significant shareholders. No prediction can be made as to the effect, if any, that future sales of ADSs or common shares, or the availability of ADSs or common shares for future sale, will have on the market price of our ADSs prevailing from time to time. Sales of substantial amounts of ADSs or common shares in the public market, or the perception that future sales may occur, could materially and adversely affect the prevailing market price of our ADSs.

### **Rule 144**

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus a person who has beneficially owned our restricted securities for at least six months is entitled to sell the restricted securities without registration under the Securities Act, subject to certain restrictions. Persons who are our affiliates (including persons beneficially owning 10% or more of our outstanding shares) may sell within any three-month period a number of restricted securities that does not exceed the greater of the following:

- 1% of the number of our common shares then outstanding, in the form of ADSs or otherwise, which will equal approximately 433,787 shares immediately after this offering, or 448,409 if the underwriters exercise their option to purchase additional ADSs in full; and
- the average weekly trading volume of our ADSs on the Nasdaq Global Market during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Such sales are also subject to manner-of-sale provisions, notice requirements and the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted securities for more than six months but not more than one year may sell the restricted securities without registration under the Securities Act subject to the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted securities for more than one year may freely sell the restricted securities without registration under the Securities Act.

### **Rule 701**

In general, under Rule 701, any of our employees, directors, officers, or consultants who purchase common shares from us in connection with a compensatory stock or option plan or other written agreement before the effective date of this offering is entitled to sell these common shares 180 days after the effective date of offering in reliance on Rule 144. Rule 701 provides that affiliates may sell their Rule 701 common shares under Rule 144 without having to comply with the holding period and notice filing requirements of Rule 144, and that non-affiliates may sell those common shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice requirements under Rule 144.

### **Registration Rights**

Upon completion of this offering, the holders of 11,730,554 common shares, or approximately 27.0% of our outstanding shares immediately after this offering, or 26.2% if the underwriters exercise their option to purchase additional ADSs in full, or their transferees will be entitled to request that we register their common shares under the Securities Act, following the expiration of the lockup agreements described above. For a further description of these registration rights, see “Description of Share Capital — Registration Rights Under Shareholders Agreement.”

## TAXATION

*The following discussion of the material Cayman Islands and United States federal income tax consequences of an investment in our ADSs is based upon laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change, possibly with retroactive effect. This discussion does not deal with all possible tax consequences relating to an investment in our ADSs, such as the tax consequences under state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Conyers, Dill & Pearman, special Cayman Islands counsel to us. To the extent the discussion relates to legal conclusions under current U.S. federal income tax law (not including any of our expectations), and subject to the qualifications herein, it represents the opinion of O'Melveny & Myers LLP, our special U.S. counsel.*

### 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 not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

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

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

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

### United States Federal Income Taxation

This discussion describes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ADSs under currently applicable law. Where specifically noted, and subject to the qualifications herein, the legal conclusions in this discussion represent the opinion of our special U.S. tax counsel, under current U.S. federal income tax. This discussion does not address any aspect of U.S. federal gift or estate tax, or the state, local or foreign tax consequences of an investment in our ADSs. This discussion applies to you only if you are an initial purchaser of our ADSs and you hold and beneficially own our ADSs as capital assets (generally, property held for investment) for U.S. federal income tax purposes. This discussion does not apply to you if you are a member 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 other financial institutions;
- regulated investment companies or real estate investment trusts;
- expatriates;
- insurance companies;

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- tax-exempt organizations;
- partnerships and other pass-through entities for U.S. federal income tax purposes or investors in such partnerships or pass-through entities;
- persons that hold ADSs as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- U.S. Holders (as defined below) whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who own or are deemed to own more than 10% of our voting shares.

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, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion is based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

**If you are considering the purchase, ownership or disposition of our ADSs, you should consult your own tax advisors concerning the U.S. federal income tax consequences to you in light of your particular situation as well as any consequences 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 and are:

- a citizen or resident of the United States;
- a corporation, or entity taxable as a corporation, that was created or organized in or under the laws of the United States, 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.

If you are not a U.S. Holder, please refer to the discussion below under “Non-U.S. Holders.” For U.S. federal income tax purposes, income earned through a foreign or domestic partnership or other pass-through entity is attributed to its owners. Accordingly, if a partnership holds ADSs, the U.S. federal income tax treatment of a partner in such partnership will generally depend on the status of such partner and the activities of the partnership. Partners and partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences applicable to them.

### **U.S. Holders**

#### **ADSs**

If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying shares that are represented by such ADSs. Accordingly, deposits or withdrawals of shares for ADSs will not be subject to U.S. federal income tax.

The United States Treasury has expressed concerns that parties to whom ADSs are prereleased may be taking actions that are inconsistent with the claiming, by United States Holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate United States

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Holders, as described below. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate United States Holders could be affected by future actions that may be taken by the United States Treasury.

### ***Dividends on ADSs***

We do not anticipate paying dividends on our common shares or indirectly on our ADSs, in the foreseeable future. See “Dividend Policy.”

Subject to the discussion under the heading “Status as a PFIC” below, if we do make distributions and you are a U.S. Holder, the gross amount of distributions on the ADSs will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by the depository. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code. With respect to non-corporate United States investors, certain dividends received before January 1, 2011 from a qualified foreign corporation may be subject to reduced rates of taxation (generally 15%). A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs, which we have applied to be listed on the Nasdaq Global Market, will be readily tradable on an established securities market in the United States. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of this legislation to your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as dividend (as discussed above).

Distributions of ADSs, common shares or rights to subscribe for common shares that are received as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax. The basis of the new ADSs, common shares or rights so received will be determined by allocating the your basis in the old ADSs between the old ADSs and the new ADSs, common shares or rights received, based on their relative fair market values on the date of distribution. However, the basis of the rights will be zero if:

- the fair market value of the rights is less than 15 percent of the fair market value of the old ADSs at the time of distribution, unless you elect to determine the basis of the old ADSs and of the rights by allocating the adjusted basis of the old ADSs between the old ADSs and the rights, or
- the rights are not exercised and thus expire.

### ***Sales and Other Dispositions of ADSs***

Subject to the discussion under the heading “Status as a PFIC” below, when you sell or otherwise dispose of ADSs, you will generally recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and your tax basis in the ADSs. Your tax basis will generally equal the amount you paid for the ADSs. Any gain or loss you recognize will be long-term capital gain or loss if you have held the ADSs for more than one year at the time of disposition. If you are an individual, any such long-term capital gain will be taxed at preferential rates (generally 15% for capital gain recognized before January 1, 2011). Your ability to deduct capital losses will be subject to various limitations.

### ***Status as a PFIC***

If we are a PFIC in any taxable year, as a U.S. Holder, you will generally 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 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. Distributions in respect of your ADSs during a taxable year will generally constitute “excess” distributions if, in the aggregate, they exceed 125% of the average amount of distributions in respect of your ADSs 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, (1) the “excess” distribution or the gain will be allocated ratably to each day in your holding period, (2) the amount allocated to the current year and any tax year before we became a PFIC will be taxed as ordinary income in the current year, (3) the amount allocated to other taxable years will be taxable at the highest applicable marginal rate in effect for that year, and (4) an interest charge at the rate for underpayment of taxes for any period described under (3) above will be imposed with respect to any portion of the “excess” distribution or gain that is allocated to such period. In addition, if we are a PFIC, no distribution that you receive from us will qualify for taxation at the preferential rate discussed in the “Dividends on ADSs” section above.

We will be classified as a PFIC in any taxable year if either: (1) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties), or (2) the average percentage value of our gross assets during the taxable year that produce passive income or are held for the production of passive income is at least 50% of the value of our total assets. For purposes of the asset test, any cash, including any cash proceeds from this offering not invested in active assets shortly after the offering, cash equivalents, and cash invested in short-term, interest bearing, debt instruments, or bank deposits, that is readily convertible into cash, will generally count as a passive asset. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income.

We do not expect to be a PFIC for the taxable year 2008. Our expectation is based on assumptions as to our projections of the value of our outstanding shares during the year and our use of the proceeds of this offering and of the other cash that we will hold and generate in the ordinary course of our business throughout taxable year 2008. Despite our expectation, there can be no assurance that we will not be a PFIC for the taxable year 2008 and/or later taxable years, as PFIC status is re-tested each year and depends on the actual facts in such year. We could be a PFIC, for example, if we do not spend sufficient amounts of the proceeds of the initial public offering of our ADSs, if our market capitalization (i.e., our share price multiplied by the total number of our outstanding common shares) at any time in the future is lower than projected, or if our business and assets evolve in ways that are different from what we currently anticipate. In addition, though we believe that our assets and the income derived from our assets do not generally constitute passive assets and income under the PFIC rules, there is no assurance that the U.S. Internal Revenue Service, or IRS, will agree with us. Our special U.S. counsel expresses no opinion with respect to our expectations contained in this paragraph.

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If we are a PFIC in any year, as a U.S. Holder, you will be required to make an annual return on IRS Form 8621 regarding your ADSs. However, in part because we do not plan on keeping a set of U.S. tax accounting books, we do not intend to generate, or share with you, the information that you might need to properly complete IRS Form 8621. You should consult with your own tax adviser regarding reporting requirements with regard to your ADSs.

The ADSs will be “marketable” as long as they remain regularly traded on a national securities exchange, such as NASDAQ. As a result, if we are a PFIC in any year, you will 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. If you make this election in a timely fashion, you will generally recognize as ordinary income or ordinary loss the difference between the fair market value of your ADSs on the last day of any taxable year and your adjusted tax basis in the ADSs. Any ordinary income resulting from this election will generally be taxed at ordinary income rates. Any ordinary losses will 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 adjusted tax basis in the ADSs will be adjusted to reflect any such income or loss. You should consult with your own tax adviser regarding potential advantages and disadvantages to you of making a “mark-to-market” election with respect to your ADSs.

Generally, if we are or become a PFIC in any year, you would be able to avoid the “excess” distribution rules by making a timely election to treat us as a so-called “Qualified Electing Fund” or “QEF.” However, because we do not intend to keep a set of U.S. tax accounting books and do not intend to provide you with the information you would need to make or maintain a “QEF” election, you will not be able to make or maintain such an election with respect to your ADSs.

### **Non-U.S. Holders**

If you are not a U.S. Holder for U.S. federal income tax purposes (a “non-U.S. Holders”), you generally will not be subject to U.S. federal income tax or withholding on dividends received from us with respect to ADSs unless that income is considered effectively connected with your conduct of a U.S. trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax with respect to income from your ADSs, such dividends are attributable to a permanent establishment that you maintain in the United States. You generally will not be subject to U.S. federal income tax, including withholding tax, on any gain realized upon the sale or exchange of ADSs, unless:

- that gain is effectively connected with the conduct of a U.S. trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax with respect to income from your ADSs, such gain is attributable to a permanent establishment that you maintain in the United States; or
- you are a nonresident alien individual and are present in the United States for at least 183 days in the taxable year of the sale or other disposition and either (1) your gain is attributable to an office or other fixed place of business that you maintain in the United States or (2) you have a tax home in the United States.

If you are engaged in a U.S. trade or business, unless an applicable tax treaty provides otherwise, the income from your ADSs, including dividends and the gain from the disposition of ADSs, that is effectively connected with the conduct of that trade or business will generally be subject to the rules applicable to U.S. Holders discussed above. In addition, if you are a corporation, you may be subject to an additional branch profits tax at a rate of 30% or any lower rate under an applicable tax treaty.

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

In general, dividend payments with respect to the ADSs and the proceeds received on the sale or other disposition of those ADSs may be subject to information reporting to the IRS, and to backup withholding (currently imposed at a rate of 28%). Backup withholding will not apply, however, if you



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(1) are a corporation or come within certain other exempt categories and, when required, can demonstrate that fact or (2) 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 generally be required to provide certification on IRS Form W-9, W-8BEN or W-8ECI, as applicable. Any amounts withheld from payments to you under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, provided that you furnish the required information to the IRS.

**Prospective purchasers should consult with their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations as well as any additional tax consequences resulting from purchasing, holding or disposing of ADSs, including the applicability and effect of the tax laws of any state, local or foreign jurisdiction, including estate, gift, and inheritance laws.**

## UNDERWRITING

We intend to offer the ADSs through the underwriters. Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative of the underwriters named below and as the bookrunner of this offering. Subject to the terms and conditions contained in the underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of ADSs listed opposite their names below.

Underwriter	<u>Number of ADSs</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Piper Jaffray & Co.	
Susquehanna Financial Group, LLLP	
<b>Total</b>	<u><u>4,874,012</u></u>

The underwriters have agreed to purchase all of the ADSs sold under the underwriting agreement if any of these ADSs is purchased. If an underwriter defaults, the underwriting agreement provides that, in certain circumstances, the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the ADSs, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the ADSs, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

### Commissions and Discounts

The representative has advised us that the underwriters propose initially to offer the ADSs to the public at the public offering price on the cover page of this prospectus, and to certain dealers at that price less a concession not in excess of \$ \_\_\_\_\_ per ADS. The underwriters may allow, and the dealers may re-allow, a discount from the concession not in excess of \$ \_\_\_\_\_ per ADS to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to ATA. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	<u>Per ADS</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price	\$	\$	\$
Underwriting discount	\$	\$	\$
Proceeds, before expenses, to ATA	\$	\$	\$

### Overallotment Option

We have granted options to the underwriters to purchase up to 731,101 additional ADSs at the public offering price less the underwriting discount. The underwriters may exercise these options for 30 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise these options, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional ADSs proportionate to that underwriter's initial amount reflected in the above table.

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### **Directed Share Program**

At our request, the underwriters have reserved up to eight percent of the ADSs being offered, at the initial public offering price, through a directed share program to persons that we believe have contributed to our growth, including certain friends and family members of our management, directors, affiliates and strategic partners, and employees of certain of our clients, course content providers and landlord. There can be no assurance that any of the reserved shares will be so purchased. The number of shares available for sale to the general public in this offering will be reduced to the extent that the reserved shares are purchased in the directed share program. Any reserved shares not purchased through the directed share program will be offered to the general public on the same basis as the other shares offered hereby.

### **No Sale of Similar Securities**

We have agreed not to sell or transfer any of our common shares or ADSs other than the ADSs sold in the initial public offering for 180 days after the date of this prospectus without first obtaining the written consent of the representative, except issuances pursuant to the exercise of employee share options outstanding on the date hereof. Specifically, we have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any common shares or ADSs,
- sell any option or contract to purchase any common shares or ADSs,
- purchase any option or contract to sell any common shares or ADSs,
- grant any option, right or warrant for the sale of any common shares or ADSs,
- lend or otherwise dispose of or transfer any common shares or ADSs, or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common shares or ADS whether any such swap or transaction is to be settled by delivery of shares, ADS or other securities, in cash or otherwise.

Our executive officers, directors and shareholders have agreed not to sell or transfer any of our common shares or ADSs other than the ADSs sold in the initial public offering for 180 days after the date of this prospectus without first obtaining the written consent of the representative.

Specifically, our executive officers, directors and shareholders have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any common shares or ADSs,
- sell any option or contract to purchase any common shares or ADSs,
- purchase any option or contract to sell any common shares or ADSs,
- grant any option, right or warrant for the sale of any common shares or ADSs,
- lend or otherwise dispose of or transfer any common shares or ADSs or any security convertible into or exchangeable or exercisable for ADSs or common shares, or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common shares or ADS whether any such swap or transaction is to be settled by delivery of shares, ADS or other securities, in cash or otherwise.

The foregoing lock-up provisions apply to the common shares and ADSs and to securities convertible into or exchangeable or exercisable for or repayable with the common shares or ADSs. If (1) during the last 17 days of the 180-day lock-up period, we issue an earnings release or announce material news or a material event or (2) before the expiration of the lock-up period, we announce we will

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release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day of the lock-up period, the lock-up restrictions will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

### **Nasdaq Global Market Listing**

We have applied to have our ADSs listed on the Nasdaq Global Market under the symbol "ATAI."

Before this offering, there has been no public market for our common shares or ADSs. The initial public offering price will be determined through negotiations between us and the representative. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are:

- the valuation multiples of publicly traded companies that the representative believes to be comparable to us,
- our financial information,
- the history of, and the prospects for, our company and the industry in which we compete,
- an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues,
- the present state of our development, and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the ADSs may not develop. It is also possible that after the offering the ADSs will not trade in the public market at or above the initial public offering price.

We are not aware of any person who intends to purchase more than 5% of the ADSs. However, through a book-building process to assess market demand for the ADSs, there may be persons who may indicate an interest to purchase more than 5% of the ADSs. If there are persons who apply to buy and are subsequently allotted more than 5% of the ADSs offered in this offering, we will make the necessary disclosure in the final prospectus.

### **Price Stabilization, Short Positions and Penalty Bids**

Until the distribution of the ADSs is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our ADSs. However, the representative may engage in transactions that stabilize the price of the ADSs, such as bids or purchases to peg, fix or maintain that price in accordance with Regulation M under the Securities Exchange Act of 1934.

In connection with the offering, the underwriters may make short sales of the ADSs, which involves the sale by the underwriters of a greater number of ADSs than they are required to purchase in the offering, and may purchase ADSs on the open market to cover positions created by short sales. Covered short sales are sales made in an amount not greater than the underwriters' overallocation option to purchase additional ADSs in the offering. The representative may close out any covered short position by either exercising their overallocation option or purchasing ADSs in the open market. In determining the source of ADSs to close out the covered short position, the representative will consider, among other things, the price of ADSs available for purchase in the open market as compared to the price at which they may purchase ADSs through the overallocation option. Naked short sales are sales in excess of the overallocation option. The representative must close out any naked short position by purchasing ADSs in the open market. A naked short position is more likely to be created if the representative is concerned that there may be downward pressure on the price of the ADSs in the open market after pricing that could adversely affect investors who purchase in the offering. Similar to other purchase transactions, the

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representative's purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the ADSs or preventing or retarding a decline in the market price of the ADSs. As a result, the price of the ADSs may be higher than the price that might otherwise exist in the open market.

The representative may also impose a penalty bid on underwriters and selling group members. This means that if the representative purchases ADSs in the open market to reduce the underwriter's short position or to stabilize the price of such ADSs, it may reclaim the amount of the selling concession from the underwriters and selling group members who sold those ADSs. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those ADSs.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the ADSs. In addition, neither we nor any of the underwriters makes any representation that the representative will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

### **Other Relationships**

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

### **Selling Restrictions**

#### ***General***

No action has been or will be taken by us or by any underwriter in any jurisdiction except in the United States that would permit a public offering of our ADSs, or the possession, circulation or distribution of a prospectus or any other material relating to us and our ADSs in any country or jurisdiction where action for that purpose is required. Accordingly, our ADSs may not be offered or sold, directly or indirectly, and neither this prospectus nor any other material or advertisements in connection with this offering may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction. The foregoing restrictions do not apply to stabilization transactions.

#### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, with effect from and including the date on which the Prospectus Directive is implemented in that Member State the underwriters have not made and may not make an offer of ADSs to the public in that Member State, except that the underwriters may, with effect from and including such date, make an offer of ADSs to the public in that Member State:

- at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an "offer of ADSs to the public" in relation to any ADSs in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to

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purchase or subscribe the ADSs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/ EC and includes any relevant implementing measure in that Member State.

### ***United Kingdom***

The underwriters have only communicated or caused to be communicated and may only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of the ADSs in circumstances in which Section 21(1) of such Act does not apply to us and it has complied and will comply with all applicable provisions of such Act with respect to anything done by it in relation to any ADSs in, from or otherwise involving the United Kingdom.

### ***France***

Neither this prospectus nor any offering material relating to ADSs or common shares has been or will be submitted to the "Commission des Opérations de Bourse" for approval ("Visa") in France. Underwriters may not offer or sell any ADSs or common shares or distribute or cause to be distributed any copies of this prospectus or any offering material relating to the ADSs or common shares, directly or indirectly, in France, except to qualified investors ("investisseurs qualifiés") and/or a restricted group of investors ("cercle restreint d'investisseurs"), in each case acting for their account, all as defined in, and in accordance with, Article L. 411-1 and L. 411-2 of the Monetary and Financial Code and "Décret" no. 98-880 dated October 1, 1998.

### ***Germany***

This prospectus is not a Securities Selling Prospectus (Verkaufsprospekt) within the meaning of the German Securities Prospectus Act (Verkaufsprospektgesetz) of September 9, 1998, as amended, and has not been filed with and approved by the German Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) or any other German governmental authority. Underwriters may not offer or sell any ADSs or common shares or distribute copies of this prospectus or any document relating to the ADSs, directly or indirectly, in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act and underwriters will not take any steps which would constitute a public offering of the ADSs or common shares in Germany.

### ***Italy***

The offering of the ADSs or common shares has not been registered with the Commissione Nazionale per le Società e la Borsa or "CONSOB," in accordance with Italian securities legislation. Accordingly, each underwriter has represented and agreed that the ADSs or common shares may not be offered, sold or delivered, and copies of this prospectus or any other document relating to the ADSs or common shares may not be distributed in Italy except to Professional Investors, as defined in Art. 31.2 of CONSOB Regulation no. 11522 of 1st July, 1998, as amended, pursuant to Art. 30.2 and Art. 100 of Legislative Decree no. 58 of 24th February, 1998 (or the Finance Law) or in any other circumstance where an express exemption to comply with the solicitation restrictions provided by the Finance Law or CONSOB Regulation no. 11971 of 14th May, 1999, as amended (or the Issuers Regulation) applies, including those provided for under Art. 100 of the Finance Law and Art. 33 of the Issuers Regulation, and provided, however, that any such offer, sale, or delivery of the ADSs or common shares or distribution of copies of this prospectus or any other document relating to the ADSs or common shares in Italy must (i) be made in accordance with all applicable Italian laws and regulations, (ii) be made in compliance with Article 129 of Legislative Decree no. 385 of 1st September 1993, as amended (the "Banking Law Consolidated Act") and the implementing guidelines of the Bank of Italy (Istruzioni di Vigilanza per le banche) pursuant to which the issue, trading or placement of securities in the Republic of Italy is subject to prior notification to the Bank of Italy, unless an exemption applies depending, inter alia, on the amount of the issue and the characteristics of the securities, (iii) be conducted in accordance with any relevant

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limitations or procedural requirements the Bank of Italy or CONSOB may impose upon the offer or sale of the securities, and (iv) be made only by (a) banks, investment firms or financial companies enrolled in the special register provided for in Article 107 of the Banking Law Consolidated Act, to the extent duly authorized to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the Financial Laws Consolidated Act and the relevant implementing regulations; or by (b) foreign banks or financial institutions (the controlling shareholding of which is owned by one or more banks located in the same EU Member State) authorized to place and distribute securities in the Republic of Italy pursuant to Articles 15, 16 and 18 of the Banking Law Consolidated Act, in each case acting in compliance with every applicable law and regulation.

### ***The Netherlands***

Underwriters may not offer, distribute, sell, transfer or deliver any ADSs or common shares, directly or indirectly, in The Netherlands, as part of their initial distribution or at any time thereafter, to any person other than our employees or employees of our subsidiaries, individuals who or legal entities which trade or invest in securities in the conduct of their profession or business within the meaning of article 2 of the Exemption Regulation issued under the Securities Transactions Supervision Act 1995 (“Vrijstellingsregeling Wet toezicht effectenverkeer 1995”), which includes banks, brokers, pension funds, insurance companies, securities institutions, investment institutions and other institutional investors, including, among others, treasuries of large enterprises, who or which regularly trade or invest in securities in a professional capacity.

### ***Switzerland***

Underwriters may not offer or sell the ADSs and common shares to any investors in Switzerland other than on a non public basis; this prospectus does not constitute a prospectus within the meaning of Article 652a and Art. 1156 of the Swiss Code of Obligations (Schweizerisches Obligationenrecht); and none of this offering, the ADSs and common shares has been or will be approved by any Swiss regulatory authority.

### ***Hong Kong***

The common shares and ADSs may not be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance, or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the common shares or ADSs may be issued, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to common shares or ADSs which are or are intended to be disposed of only to persons outside of Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### ***Singapore***

This prospectus has not been registered with the Monetary Authority of Singapore. Accordingly, the underwriters have not offered or sold any ADSs or caused the ADSs to be made the subject of an invitation for subscription or purchase and may not offer or sell any ADSs or cause the ADSs to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the ADSs, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in



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Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

The underwriters will notify (whether through the distribution of the prospectus or otherwise) each of the following relevant persons specified in Section 275 of the SFA that has subscribed or purchased ADSs from or through that underwriter, namely a person that is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the ADSs under Section 275 except:

(1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA;

(2) where no consideration is given for the transfer; or

(3) by operation of law.

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

This prospectus does not constitute a public offer of the ADSs or common shares, whether by way of sale or subscription, in the People's Republic of China. The ADSs and common shares may not be offered or sold, directly or indirectly, in the People's Republic of China. For the purposes of this paragraph, the People's Republic of China excludes Hong Kong, Macau and Taiwan.

### ***Cayman Islands***

This prospectus does not constitute a public offering of the ADSs or common shares, whether by way of sale or subscription, in the Cayman Islands.

### ***Japan***

The ADSs have not been and will not be registered under the Securities and Exchange Law of Japan. The underwriters have not offered or sold, and may not offer or sell, directly or indirectly, any ADSs in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any resident for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except:

- pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law of Japan; and
- in compliance with the other relevant laws and regulations of Japan.

### ***United Arab Emirates***

This prospectus is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates (UAE). The ADSs have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or with any other UAE exchange.

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The offering, the ADSs and interests therein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and do not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the ADSs may not be offered or sold directly or indirectly to the public in the UAE.

### ***Kingdom of Bahrain***

The offering is restricted in the Kingdom of Bahrain to banks, financial institutions and professional investors and any person receiving this prospectus in the Kingdom of Bahrain and not falling within those categories is ineligible to purchase the ADSs.

### ***State of Kuwait***

The ADSs have not been authorized or licensed for offering, marketing or sale in the State of Kuwait. The distribution of this prospectus and the offering and sale of the ADSs in the State of Kuwait is restricted by law unless a license is obtained from the Kuwait Ministry of Commerce and Industry in accordance with Law 31 of 149 1990. Persons into whose possession this prospectus comes are required by us and the underwriters to inform themselves about and to observe such restrictions. Investors in the State of Kuwait who approach us or any of the underwriters to obtain copies of this prospectus are required by us and the underwriters to keep such prospectus confidential and not to make copies thereof or distribute the same to any other person and are also required to observe the restrictions provided for in all jurisdictions with respect to offering, marketing and the sale of the ADSs.

### ***Kingdom of Saudi Arabia***

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering or private placement of the ADSs in the Kingdom of Saudi Arabia, or possession or distribution of any offering materials in relation thereto. The ADSs may only be offered and sold in the Kingdom of Saudi Arabia in accordance with Part 5 (Exempt Offers) of the Offers of Securities Regulations dated 20/8/1425 AH corresponding to 4/10/2004 (the "Regulations") and, in accordance with Part 5 (Exempt Offers) Article 17(a)(3) of the Regulations, the ADSs will be offered to no more than 60 offerees in the Kingdom of Saudi Arabia with each such offeree paying an amount not less than Saudi Riyals one million or its equivalent. Investors are informed that Article 20 of the Regulations places restrictions on secondary market activity with respect to the ADSs. Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by us.

**EXPENSES RELATING TO THIS OFFERING**

The following table sets forth the main estimated expenses in connection with this offering, other than the underwriting discounts, which we will be required to pay:

Securities and Exchange Commission registration fee	\$ 2,533
Financial Industry Regulatory Authority filing fee	\$ 10,500
Nasdaq Global Market listing fee	\$ 5,000
Legal fees and expenses	\$ 1,900,000
Accounting fees and expenses	\$ 750,000
Printing fees	\$ 450,000
Financial advisory fees	\$ 130,000
Other fees and expenses	\$ 589,500
<b>Total</b>	<b>\$ 3,837,533</b>

All amounts are estimated, except the Securities and Exchange Commission registration fee, the Nasdaq Global Market listing fee and the Financial Industry Regulatory Authority filing fee.

## LEGAL MATTERS

Certain matters of United States federal and New York State law will be passed upon for us by O'Melveny & Myers LLP. Certain legal matters of United States federal and New York State law in connection with this offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP. The validity of the common shares represented by the ADSs offered in this offering will be passed upon for us by Conyers, Dill & Pearman. Legal matters as to Chinese law will be passed upon for us by Jincheng & Tongda Law Firm and for the underwriters by Commerce & Finance Law Offices.

## EXPERTS

Our consolidated financial statements as of March 31, 2006 and 2007 and for the years then ended have been included in this registration statement in reliance on the report of KPMG, an independent registered public accounting firm, appearing elsewhere herein and upon the authority of said firm as experts in accounting and auditing. The offices of KPMG are located at 8/ F Prince's Building, 10 Chater Road, Central, Hong Kong Special Administrative Region, the People's Republic of China.

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form F-1 (No. 333-148512) and the depositary has filed a registration statement on Form F-6 (No. 333-148641), including relevant exhibits and schedules under the Securities Act, covering the common shares represented by the ADSs offered by this prospectus, as well as the ADSs. You should refer to our registration statements and their exhibits and schedules if you would like to find out more about us and about the ADSs and the common shares represented by the ADSs. This prospectus summarizes material provisions of contracts and other documents that we refer you to. Since the prospectus may not contain all the information that you may find important, you should review a full text of these documents.

Upon the completion of this offering, we will be subject to periodic reporting and other informational requirements of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and submitting other reports and information under cover of Form 6-K with the SEC. As a foreign private issuer, we are exempt from some of the Exchange Act reporting requirements, the rules prescribing the furnishing and content of proxy statements to shareholders, and Section 16 short-swing profit reporting for our officers and directors and for holders of more than 10% of our common shares. You may read and copy any document we file with the SEC at the SEC's public reference room at Room 1580, 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the public reference rooms and their copy charges. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding issuers, such as us, who file electronically with the SEC. The address of that web site is <http://www.sec.gov>.

We will furnish to Citibank, N.A., as depositary of our ADSs, our annual reports. When the depositary receives these reports, it will upon our request promptly provide them to all holders of record of ADSs. We will also furnish the depositary with all notices of shareholders' meetings and other reports and communications in English that we make available to our shareholders. The depositary will make these notices, reports and communications available to holders of ADSs and will upon our request mail to all holders of record of ADSs the information contained in any notice of a shareholders' meeting it receives.

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**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Shareholders of  
ATA Inc.:**

We have audited the accompanying consolidated balance sheets of ATA Inc. and its subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Renminbi. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ATA Inc. and its subsidiaries as of March 31, 2006 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, such consolidated financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 2(d) to the consolidated financial statements.

/s/ KPMG

Hong Kong, China  
September 1, 2007, except as to Note 2(d)  
and paragraphs (b) and (c) of  
Note 19, which are as of October 15, 2007  
and as to paragraph (d) of Note 19,  
which is as of January 7, 2008

**ATA INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	Note	March 31,		
		2006	2007	2007
		RMB	RMB	USD
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash		44,624,314	45,019,114	6,008,317
Accounts receivable, net	(3)	12,984,378	16,977,651	2,265,862
Due from related parties	(17)	4,368,339	19,770	2,639
Inventories		2,316,753	2,405,912	321,097
Prepaid expenses and other current assets	(4)	3,695,082	12,233,295	1,632,672
<b>Total current assets</b>		<b>67,988,866</b>	<b>76,655,742</b>	<b>10,230,587</b>
Investments in affiliates	(5)	3,349,716	3,162,548	422,078
Property and equipment, net	(6)	3,076,512	7,543,184	1,006,724
Goodwill		6,880,123	6,880,123	918,231
Deferred initial public offering costs		—	9,462,485	1,262,877
Other assets		7,089,183	4,461,368	595,421
<b>Total assets</b>		<b>88,384,400</b>	<b>108,165,450</b>	<b>14,435,918</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Note payable	(7)	19,000,000	—	—
Accounts payable		4,276,501	5,546,140	740,196
Due to related parties	(17)	1,643,720	—	—
Accrued expenses and other payables	(8)	6,676,814	13,732,392	1,832,745
Deferred revenues	(9)	22,340,221	26,341,019	3,515,511
<b>Total current liabilities</b>		<b>53,937,256</b>	<b>45,619,551</b>	<b>6,088,452</b>
Deferred revenues	(9)	8,555,393	7,897,234	1,053,976
<b>Total liabilities</b>		<b>62,492,649</b>	<b>53,516,785</b>	<b>7,142,428</b>
<b>Shareholders' equity:</b>				
Convertible preferred shares: USD0.01 par value; 10,000,000 shares authorized, including:				
Series A preferred shares:				
6,628,369 issued; USD15,000,000 liquidation value;	(13)	533,451	533,451	71,195
Series A-1 preferred shares:				
883,783 issued; USD3,000,000 liquidation value	(13)	—	70,848	9,455
Common shares:				
USD0.01 par value; 40,000,000 shares authorized, 20,000,000, and 25,479,452 shares issued				
		1,655,313	2,093,877	279,452
Treasury shares — 3,579,320 common shares, at cost		(16,106,940)	(16,106,940)	(2,149,656)
Additional paid-in capital	(7, 13, 14)	158,102,092	203,139,446	27,111,287
Accumulated deficit		(118,292,165)	(135,082,017)	(18,028,243)
<b>Total shareholders' equity</b>		<b>25,891,751</b>	<b>54,648,665</b>	<b>7,293,490</b>
Commitments and contingencies	(11, 15)			
<b>Total liabilities and shareholders' equity</b>		<b>88,384,400</b>	<b>108,165,450</b>	<b>14,435,918</b>

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



**ATA INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Note	Year Ended March 31,		
		2006	2007	2007
		RMB	RMB	USD
Net revenues	(10)	69,037,472	84,880,877	11,328,325
Cost of revenues		33,988,787	41,101,688	5,485,491
<b>Gross profit</b>		<b>35,048,685</b>	<b>43,779,189</b>	<b>5,842,834</b>
<b>Operating expenses:</b>				
Research and development		4,853,772	9,322,068	1,244,137
Sales and marketing		12,262,787	22,028,895	2,940,009
General and administrative		19,023,011	32,024,170	4,273,992
<b>Total operating expenses</b>		<b>36,139,570</b>	<b>63,375,133</b>	<b>8,458,138</b>
<b>Loss from operations</b>		<b>(1,090,885)</b>	<b>(19,595,944)</b>	<b>(2,615,304)</b>
Equity in net losses of affiliates	(5)	(560,858)	(187,168)	(24,980)
Gain from liquidation of an affiliate	(5)	—	1,509,228	201,424
Interest income		331,898	599,872	80,060
Interest expense	(7)	(22,713,422)	—	—
Loss from revaluation of preferred share warrant	(13)	(211,136)	—	—
Foreign currency exchange losses, net		(1,050,152)	(908,998)	(121,316)
<b>Loss before income tax benefit</b>		<b>(25,294,555)</b>	<b>(18,583,010)</b>	<b>(2,480,116)</b>
Income tax benefit	(11)	485,456	1,793,158	239,318
<b>Net loss</b>		<b>(24,809,099)</b>	<b>(16,789,852)</b>	<b>(2,240,798)</b>
Accretion of Series A redeemable convertible preferred shares to redemption value	(13)	(13,889,483)	—	—
Foreign currency exchange translation adjustment on Series A redeemable convertible preferred shares		3,269,224	—	—
<b>Net loss applicable to common shareholders</b>		<b>(35,429,358)</b>	<b>(16,789,852)</b>	<b>(2,240,798)</b>
Basic and diluted loss per share applicable to common shareholders	(16)	(2.16)	(0.82)	(0.11)
Proforma basic and diluted loss per share applicable to common shareholders	(20)		(0.52)	(0.07)

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



2007	<u>6,628,369</u>	<u>533,451</u>	<u>883,783</u>	<u>70,848</u>	<u>25,479,452</u>	<u>2,093,877</u>	<u>(16,106,940)</u>	<u>203,139,446</u>	<u>(135,082,017)</u>	<u>54,648,665</u>
Balance as of March 31, 2007-USD		<u>71,195</u>		<u>9,455</u>		<u>279,452</u>	<u>(2,149,656)</u>	<u>27,111,287</u>	<u>(18,028,243)</u>	<u>7,293,490</u>

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

**ATA INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended March 31,		
	2006	2007	2007
	RMB	RMB	USD
<b>Cash flows from operating activities:</b>			
Net loss	(24,809,099)	(16,789,852)	(2,240,798)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of loan discount	22,713,422	—	—
Equity in net losses of affiliates	560,858	187,168	24,980
Gain from liquidation of an affiliate	—	(1,509,228)	(201,424)
Unrealized foreign currency exchange loss	73,341	162,562	21,696
Bad debt expense	932,127	499,729	66,695
Depreciation and amortization	1,547,017	1,836,675	245,125
Gain from disposal of property and equipment	—	(1,667)	(222)
Share-based compensation	4,182,233	2,497,318	333,296
Deferred income tax benefit	(485,456)	(1,819,345)	(242,812)
Loss from revaluation of preferred share warrant	211,136	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(9,562,443)	(4,493,002)	(599,643)
Due from related parties	572,652	870,036	116,116
Inventories	(878,167)	(89,159)	(11,899)
Prepaid expenses and other current assets	(380,939)	(7,065,627)	(942,989)
Other assets	(1,993,503)	1,128,494	150,610
Accounts payable	(1,748,876)	1,269,639	169,448
Due to related parties	(7,551,496)	(163,633)	(21,839)
Accrued expenses and other payables	(1,677,319)	3,612,773	482,166
Deferred revenues	1,746,667	3,342,639	446,113
<b>Net cash used in operating activities</b>	<b>(16,547,845)</b>	<b>(16,524,480)</b>	<b>(2,205,381)</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(2,699,341)	(4,720,600)	(630,018)
Proceeds from disposal of property and equipment	—	15,000	2,002
Deposit from sale of Wendu Education	—	2,000,000	266,923
Proceeds from liquidation of ATA Jiangsu	—	29,141	3,889
Proceeds from disposal of an affiliate	—	250,000	33,365
Investment in Wendu Education	(4,000,000)	—	—
Advances and loans to related parties	(1,142,554)	(1,655,213)	(220,907)
Collection of advances and loans to related parties	20,000,000	5,133,746	685,157
<b>Net cash provided by investing activities</b>	<b>12,158,105</b>	<b>1,052,074</b>	<b>140,411</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common shares	—	19,000,000	2,535,768
Proceeds from issuance of preferred shares	—	24,049,448	3,209,675
Cash paid for preferred shares and warrants issuance cost	(4,061,003)	—	—
Cash paid for initial public offering costs	—	(8,019,680)	(1,070,318)
Cash paid to settle a debt from an investor of ATA Learning	(30,000,000)	—	—
Repayment of note payable	—	(19,000,000)	(2,535,768)
Repayment of advances and loans from related parties	(7,081,480)	—	—
Repayment of advances from third parties	(2,800,000)	—	—
<b>Net cash (used in) provided by financing activities</b>	<b>(43,942,483)</b>	<b>16,029,768</b>	<b>2,139,357</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(73,341)</b>	<b>(162,562)</b>	<b>(21,696)</b>
Net (decrease) increase in cash	(48,405,564)	394,800	52,691
Cash at beginning of year	93,029,878	44,624,314	5,955,626
<b>Cash at end of year</b>	<b>44,624,314</b>	<b>45,019,114</b>	<b>6,008,317</b>
<i>Supplemental disclosures of cash flow information:</i>			
Cash paid for interest expenses	7,630,670	—	—
Cash paid for income tax	—	—	—
Non-cash investing and financing activities:			
Accretion of Series A redeemable convertible preferred shares to redemption value	13,889,483	—	—
Disposal of an affiliate in exchange for a note receivable	250,000	—	—
Forgiven liability due to ATA Jiangsu	—	1,480,087	197,535
Reclassification of liability classified warrant to equity	5,916,546	—	—

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

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

***Organization and Description of Business***

The accompanying consolidated financial statements include the financial statements of ATA Inc. (the “Company”), its subsidiaries, ATA Testing Authority (Holdings) Limited (“ATA BVI”), ATA Testing Authority (Beijing) Limited (“ATA Testing”) and ATA Learning (Beijing) Inc. (“ATA Learning”), and a consolidated variable interest entity (“VIE”), ATA Online (Beijing) Education Technology Limited (“ATA Online”). The Company, its consolidated subsidiaries and consolidated VIE are collectively referred to as the “Group.” The Group is a provider of computer-based testing services, test-based educational services, test preparation solutions and other related services in the People’s Republic of China (the “PRC”).

The Company is a holding company and does not conduct any operations. The Company was incorporated in the Cayman Islands on September 22, 2006 and became the parent company of ATA BVI when the Company issued shares to the preferred and common shareholders of ATA BVI on November 10, 2006 in exchange for proportionally all of their shares held by them in ATA BVI. ATA BVI is also a holding company incorporated in the British Virgin Islands on November 22, 2001 and does not conduct any operations. The rights of the preferred and common shares issued by the Company are the same as those originally issued by ATA BVI. In substance, ATA BVI has been reorganized as a wholly-owned subsidiary of the Company. The Company has accounted for this reorganization as a legal reorganization of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the Company’s consolidated financial statements are prepared to include the financial statements of ATA BVI, its subsidiaries and VIEs through November 10, 2006 and the Company’s consolidated financial statements since then are prepared to include the financial statements of the Company, its subsidiaries and VIE.

ATA Testing is a wholly-owned subsidiary of ATA BVI and is primarily engaged in providing computer-based testing services by licensing its technologies and software applications to third-party test sponsors and providing non-online test preparation solutions business. To a lesser extent, ATA Testing has also established a network of ATA Authorized Test Center across the PRC by licensing the “ATA” brand name and technologies to third-party test centers in the PRC.

ATA Learning was a cooperative joint venture established by ATA BVI and Yinchuan Economic & Technical Development Zone Investment Holding Co., Ltd. (“Yinchuan Holding”). ATA Learning is primarily engaged in test-based educational services, including developing course programs and providing single course and degree major course programs to educational institutions and to lesser extent, providing training sessions to course operators. ATA Learning was a consolidated VIE of the Group through May 9, 2005, at which time it became a wholly-owned subsidiary of ATA BVI (See Note 17(h)).

ATA Online is a domestic PRC company established by three shareholders/executive officers of the Company on September 11, 2006. ATA Online is primarily engaged in providing online test preparation services. ATA Online is a consolidated VIE of ATA BVI since October 27, 2006.

***Significant Concentrations and Risks***

The success of the Group’s business going forward will rely in large part on its ability to continue to obtain business from its existing clients and maintain its relationships with key Chinese governmental agencies. The Group’s success will depend to a large extent on its ability to convince its clients that the Group’s technologies and services are valuable and that it is more cost-effective for those clients to utilize the Group’s services than for them to develop similar services in-house. RMB37.1 million and RMB39.8 million, representing 53.8% and 46.9%, of its total net revenues for the years ended March 31,

**ATA INC. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

2006 and 2007, respectively, were generated from licensing and service fees from Chinese governmental agencies and educational institutions controlled by the PRC government. RMB8.4 million and RMB10.4 million, representing 12.2% and 12.3%, of the Group's total net revenues for the years ended March 31, 2006 and 2007, respectively, was generated from the PRC Ministry of Labor. No other client accounted for 10% or more of the Group's total net revenues for the years ended March 31, 2006 and 2007. Demand and ability to pay for the Group's products and services by these agencies and institutions are affected by government budgetary cycles, funding availability and government policies. Funding reductions, reallocations or delays could adversely impact demand for the Group's products and services or reduce the fees the Group's clients are willing to pay for such products and services. The Chinese markets for testing services, test-based educational services and test preparation solutions are still emerging and evolving rapidly.

In November 2006, the Group launched the sales of NTET Tutorial Platform. NTET revenue of RMB9.9 million accounted for 11.7% of the Group's total net revenues for the year ended March 31, 2007.

A substantial portion of the Group's revenues are derived from the licensing of course programs that incorporate course materials licensed by the Group from IT vendors including Microsoft (China) Co., Ltd. ("Microsoft") and Adobe Systems Software (Beijing) Co., Ltd.. If the Group was to lose the right to offer certification tests or course materials of these IT vendors, the Group's revenues and results of operations could be materially affected. The licensing agreements with various IT vendors are normally renewed every two to three years. Under the Simulation Technology License Agreement with Microsoft, Microsoft has the right to acquire for USD3 million a perpetual royalty-free license to the source code of the Dynamic Simulation Technology ("DST"), along with the right to freely sell, license or sublicense the DST source code to third parties. The contract does not restrict which entities to which Microsoft may sell, license or sublicense the DST source code. While Microsoft's exercise of this option would generate additional revenue to the Group in the short term, it may materially adversely affect the Group's future revenues if Microsoft or any company to which Microsoft sells or licenses the technology uses it to directly compete with the Group.

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

There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective and as a result, changes in the rate or method of taxation, reduction in tariff protection and other import restrictions, and changes in state policies and regulations affecting software for the vocational education industry may have a negative impact on the Group's operating results and financial condition.

The Group's success will depend to a large extent on its ability to convince its clients that the Group's technologies and services are valuable and that it is more cost-effective for those clients to utilize the Group's services than for them to develop similar services in-house.

**ATA INC. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

As of March 31, 2006 and 2007, RMB41,370,448 and RMB38,320,167, respectively, was held in major financial institutions located in the PRC, and the remaining cash of RMB2,281,186 and RMB6,640,823, respectively, was held in major financial institutions located in the Hong Kong Special Administration Region. Management believes that these major financial institutions are of high credit quality. Cash denominated in currencies other than RMB is subject to foreign currency risk due to the appreciation or depreciation of RMB under the current exchange rate regime in the PRC.

The Group does not have concentrations of available sources of labor, services, franchises or other rights that could, if suddenly eliminated, severely impact its operations.

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

**(a) Principles of consolidation**

The consolidated financial statements include the financial statements of the Company, its subsidiaries and a VIE. All significant intercompany balances and transactions have been eliminated on consolidation. The Company has adopted FASB Interpretation No. 46 Revised, "*Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*" ("FIN 46R") issued by Financial Accounting Standards Board ("FASB"). FIN 46R requires certain VIEs to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

Prior to May 9, 2005, ATA BVI held 40% of the equity interest in ATA Learning, which was determined to be a VIE. Although the Group held less than a majority equity interest in ATA Learning at that time, the Group determined that ATA BVI was ATA Learning's primary beneficiary. On May 9, 2005, ATA BVI acquired the remaining 60% equity interest held by Yinchuan Holding (See Note 17(h)). The financial statements of ATA Learning have been included in the consolidated financial statements of the Company for all periods presented.

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. To comply with the PRC laws and regulations, the Group conducts its online test preparation business, a type of ICP service, through ATA Online. The Company has no ownership interest in ATA Online. However, the Company has economic controlling interest over ATA Online through a series of contractual agreements, including loan agreements, a call option and cooperation agreement, an equity pledge agreement, a strategic consulting service agreement and a technical support agreement between the Company, ATA Online and ATA Online's owners. As a result of these agreements, the Company absorbs a majority of ATA Online's expected losses and receives a majority of ATA Online's expected residual returns and therefore the Company has been deemed the primary beneficiary of ATA Online. The financial statements of ATA Online have been included in the consolidated financial statements of the Company since October 27, 2006, the effective date of a series of contractual arrangements entered into among ATA BVI, ATA Learning and ATA Online. The loans, under the loan agreements discussed above, are eliminated on consolidation.

**(b) Basis of presentation**

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



**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(c) Use of estimates**

The preparation of financial statements in conformity with US GAAP requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the fair value of share-based payments, expected service period for course programs, expected licensing period for perpetual ATA Test centers, collectibility of accounts receivable and amounts due from related parties, realization of deferred income tax assets, useful lives and residual values of long-lived assets, recovery of the carrying values of long-lived assets and goodwill, and the fair values of financial and certain equity instruments. Actual results could differ from those estimates.

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

The Group's reporting currency is the Renminbi ("RMB").

A majority of the Group's revenues and expenditures are denominated in RMB. Transactions denominated in currencies other than the RMB are translated into the RMB at the exchange rates quoted by the People's Bank of China ("PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates quoted by the PBOC at the balance sheet dates. All such exchange gains and losses are included in the consolidated statements of operations in the line item "Foreign currency exchange losses, net." The effects of currency exchange rate movements on the carrying value of redeemable convertible preferred shares is included in the consolidated statements of shareholders' equity and is recorded as a reduction to earnings to arrive at net loss applicable to common shareholders until the reclassification of redeemable convertible preferred shares to shareholders' equity.

For the convenience of the readers, the 2007 RMB amounts included in the accompanying consolidated financial statements have been translated into United States dollars ("U.S. dollar" or "USD") at the rate of USD1.00 = RMB7.4928, being the noon buying rate for USD in effect on September 28, 2007 in the City of New York for cable transfer in RMB per USD as certified for custom purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into USD at that rate or at any other certain rate on September 28, 2007.

**(e) Commitments and contingencies**

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

**(f) Fair value of financial instruments**

The carrying amounts of cash, accounts receivable, current amounts due from related parties, other current receivables which are included in the prepaid expenses and other current assets, advances to third parties, accounts payable, current amounts due to related parties, note payable and other payables approximate their fair values due to their short-term nature.

The fair values of long-term advances to third parties (included in other assets) as of March 31, 2006 and 2007 are RMB3,863,012 and RMB3,101,795, respectively, and are estimated by discounting expected future cash flows using the interest rate at which similar loans would be made to borrowers with similar credit ratings and remaining maturities.

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(g) Revenue recognition**

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

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

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

i) Testing services

Licensing fees from test sponsors for test delivery services are recognized upon the completion of the examination by all enrolled test takers since the Group has no significant future involvement after the completion of the examination. The Group also enters licensing arrangements for use of the DST with test sponsors. Licensing fees from clients for use of the DST are recognized in the quarter in which simulation testing technology licenses are delivered, which is evidenced by the quarterly usage reports received from the licensees.

ii) Test-based educational services

Licensing fees from educational institutions for degree major course programs are recognized on a straight-line basis ratably over the contractual licensing period, which typically starts in the month of September and ends in the month of June or August of the following year, i.e. 10 to 12 months.

Licensing fees from educational institutions for single course programs are recognized as follows, (1) if the contracts do not have a definitive term of service period, the Group estimates, based on historical experience, the percentage of contracts that will be completed within 12 months, and recognizes revenue for such contracts on a straight-line basis over a period of five months, which is the expected service period based on historical averages; (2) for the percentage of contracts that are not expected to be completed within 12 months, the Group does not recognize revenue until the course is completed or upon receipt of confirmations from the educational institutions that no further services were required; and (3) for all single course programs, which have a definitive term of service period, the Group recognizes revenue on a straight-line basis over the expected service period or the contractual period, whichever is longer. At the end of each reporting period upon the closing of the Group's financial records, the Group compares the revenue recognized at the onset of the contracts to the actual completion status of each contract, on a contract by contract basis, and make any revenue adjustments to reflect the actual completion status.

Licensing fees from educational institutions for pre-occupational training programs are recognized on a straight-line basis ratably over the training period, which is approximately 2 to 3 months.

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

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

iii) Test preparation solutions

**a) Online test preparation service fees**

The Group sells online point cards to end users directly or through distributors on a consignment basis. The online point cards entitle the end users unlimited use of online mock examinations during a specified service period, which normally ranges from 90 to 180 days since the activation of the cards.

Sales proceeds of online point cards are recognized on a straight-line basis ratably over the service period commencing at the point of time the card is activated as online test preparation service fees.

If the cards sold to the end users are not activated before the expiration date, related online service fees received will be recognized on the expiration date.

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

**b) NTET Tutorial Platform Software sales**

NTET Tutorial Platform Software sales are recognized upon delivery and when collectibility is reasonably assured. Based on historical experience with customers of certain software related products, collectibility of amounts billed for such software related products is not reasonably assured at the time of delivery. Consequently, revenue for such products is recognized on a cash basis.

iv) Other revenue

**a) Licensing fees from authorized test centers**

The Group receives either a fixed initial fee plus continuing annual fees or a fixed fee for a perpetual licensing period for licensing the Group's name, E-testing platform, ongoing technical support, unspecific system upgrades and training to authorized test centers' staff. Initial fees and fees for perpetual period are recognized ratably over the expected licensing period of 10 years, during which the Group is expected to have continuing involvement with the authorized test centers. Management estimates the expected licensing period based on its historical retention experience, factoring in the expected level of future competition, the risk of technological obsolescence, technological innovation, and the expected changes in the social environment.

**b) Test development services**

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

Revenue is recorded, net of business tax. Business tax is levied on the Group's service-related revenues generated in the PRC at 5%. Payments received or receivable in advance of the rendering of services and payments received in advance of delivery of products are recorded as deferred revenue.

**(h) Cost of revenues**

Cost of revenues consist primarily of royalty fees for IT vendor licensing arrangements, cost of inventories sold, payroll compensation, technical support, and related costs incurred by the Group, which are directly attributable to the rendering of the Group's services.

Such costs are expensed as incurred, typically at the beginning of the respective degree major course or single course program period, over which revenue is recognized. The royalty fees paid to IT vendors are charged to expense based on actual usage according to the contract provisions. During the

ATA INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

years ended March 31, 2006 and 2007, royalty fees of RMB15,784,255 and RMB19,030,182, respectively, were charged to the consolidated statements of operations as cost of revenues.

**(i) Research and development costs**

Research and development costs are expensed as incurred, which primarily consist of software developed for internal use and software developed for sale or lease.

*i) Software developed for internal use*

The Group recognizes development costs of software for internal use in accordance with Statement of Position ("SOP") No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The Group expenses all costs that are incurred in connection with the planning and implementation phases of development of software. Costs incurred in the development phase are capitalized and amortized over the estimated product life. No costs were capitalized for all periods presented.

*ii) Software developed for sale or lease*

Pursuant to the provisions of Statement of Financial Accounting Standard ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," costs incurred internally in researching and developing a computer software product are charged to expense as research and development costs prior to technological feasibility being established for the product. Once technological feasibility is established, all computer software costs are capitalized until the product is available for general release to customers. Technological feasibility is established upon completion of all the activities that are necessary to substantiate that the computer software product can be produced in accordance with its design specifications, including functions, features, and technical performance requirements. No costs were capitalized for all periods presented.

**(j) Income taxes**

Deferred income taxes are provided using 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 operating loss carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates 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.

**(k) Share-based payments**

The Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" as of the earliest date presented. Under this method, compensation cost related to employee share options or similar equity instruments is measured at the grant date based on the fair value of the award and recognized over the period during which an employee is required to provide service in exchange for the award, which generally is the vesting period. When no future services are required to be performed by the employee in exchange for an award of equity instruments, and if such award does not contain a performance or market condition, the cost of the award (as measured based on the grant-date fair value of the equity instrument) is expensed on the grant date.

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

All transactions with non-employee vendors in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty's performance is completed.

**(l) Cash**

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

**(m) Accounts receivable**

Accounts receivable include amounts billed at the invoiced amount and unbilled amounts. Unbilled receivables relate to revenues earned and recognized but which have not been billed by the Group in accordance with the terms of the contract.

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

**(n) Inventories**

Inventories consist mainly of textbooks and educational materials on electronic media, electronics kits and supplies held for sale. Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

**(o) Investments in affiliates**

An affiliated company is an entity in which the Group has the ability to exercise significant influence over its financial and operating policies and decisions, but does not have a controlling financial interest in the entity.

Investments in affiliated companies are accounted for under the equity method. The Group recognizes an impairment loss when there is a decline in value below the carrying value of the investment which is considered other than temporary. The factors management evaluates in determining if a decline is other than temporary are the Group's ability and intent to hold the investment over a reasonable period of time sufficient for a forecasted recovery of fair value, the severity of the impairment, duration of the impairment and forecasted recovery of fair value.

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

Property and equipment is stated at historical cost.

Depreciation and amortization is provided using the straight-line method over the following estimated useful lives, with nil residual value, as follows:

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

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

Long-lived assets, which include property, equipment and intangible assets other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group recognizes impairment of long-lived assets in the event that the carrying value of such assets exceeds the future undiscounted cash flows attributable to such assets. An impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment of long-lived assets was recognized for all periods presented.

**(r) Goodwill**

Goodwill represents the excess purchase price over the fair value of the proportional net assets acquired to purchase the remaining equity interest in ATA Testing in November 2002. Such goodwill is not amortized, but instead tested for impairment at least annually or more frequently if certain circumstances indicate a possible impairment may exist. Management completes its annual impairment assessment for goodwill in March of each year. Management evaluates the recoverability of goodwill using a two-step impairment test approach at the reporting unit level, which was determined to be the enterprise level. In the first step, the fair value of the Company is compared to its carrying value including goodwill. The fair value of the Company is determined based upon a combination of multiple of earnings, discounted future cash flows and the projected profitability of the market in which it operates. Second, if the carrying amount of the Company exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the goodwill over the implied fair value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the Company in a manner similar to a business combination. No impairment loss on goodwill was recognized for any period presented.

**(s) Employee benefit plans**

As stipulated by the regulations of the PRC, the Company's PRC subsidiaries and VIE are required to contribute to various defined contribution plans, organized by municipal and provincial governments on behalf of their employees. These companies are required to make contributions to these plans at rates ranging from 40.3% to 44% of employee's salaries. The Group has no other material obligation for the payment of employee benefits associated with these plans beyond the annual contributions described above. During the years ended March 31, 2006 and 2007, the Group contributed RMB3,325,524 and RMB4,190,954 to these plans, respectively.

**(t) Earning (loss) per share**

Basic earning (loss) per share is computed by dividing net income (loss) available (applicable) to common shareholders by the weighted average number of common shares outstanding during the period

ATA INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 convertible preferred shares are participating securities since the holders of these securities may participate in dividends with common shareholders based on a pre-determined formula.

Diluted earning (loss) per share is calculated by dividing net income (loss) available (applicable) to common shareholders as 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 period. Common equivalent shares consist of the common shares issuable upon the conversion of the convertible preferred shares (using the as-converted method) and common shares issuable upon the exercise of outstanding share options and warrants (using the treasury stock method). Common equivalent shares in the diluted earning (loss) per share computation are excluded to the effect that they would be anti-dilutive.

**(u) Segment reporting**

The Group has no operating segments, as that term is defined by FASB Statement No. 131, *"Disclosure About Segments of an Enterprise and Related Information."* Substantially all of the Group's operations and customers are located in the PRC. Consequently, no geographic information is presented.

**(v) Recently issued accounting standards**

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"* ("FIN 48"), which, among other things, requires applying a "more likely than not" threshold to the recognition and derecognition of tax positions. The provisions of FIN 48 will be effective for the Group on April 1, 2007. Management is currently evaluating the impact of adopting FIN 48 on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"* ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about the fair value measurements. The provisions of SFAS No. 157 will be effective for the Group on April 1, 2008. Management is currently evaluating the impact of adopting SFAS No. 157 on the consolidated financial statements, but management does not expect its adoption will have a material transition effect to the consolidated financial statements.

In November 2006, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 06-6, *"Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments"* ("EITF 06-6"), which applies to modifications and exchanges of debt instruments that (a) either add or eliminate an embedded conversion option or (b) affect the fair value of an existing embedded conversion option. The provisions of EITF 06-6 will be effective for the Group on April 1, 2007. Management is currently evaluating the impact of adopting EITF 06-6 on the consolidated financial statements, but management does not expect its adoption will have a material transition effect to the consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 *"The Fair Value Option for Financial Assets and Financial Liabilities"* ("SFAS No. 159"), which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The provisions of SFAS No. 159 will be effective for the Group on April 1, 2008. Management is currently evaluating whether to elect the fair value option as permitted under SFAS No. 159.



**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(3) ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net is summarized as follows:

	March 31,	
	2006	2007
	RMB	RMB
Accounts receivable	14,924,800	19,417,802
Less: Allowance for doubtful accounts	(1,940,422)	(2,440,151)
<b>Accounts receivable, net</b>	<b><u>12,984,378</u></b>	<b><u>16,977,651</u></b>

Accounts receivable are unsecured and denominated in RMB, and are derived from operations arising in the PRC. Management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable.

The Group's accounts receivable also comprise amounts earned and recognized under contractual terms but not yet billed (unbilled receivables). Management expects that substantially all unbilled receivables will be billed and collected within twelve months of each balance sheet date. Historically the Group has been able to collect substantially all amounts due under the contract terms without making any concessions on payments.

No individual customer contributed to more than 10% of the Group's total net revenues for the years ended March 31, 2006 and 2007. Except for the National Educational Examinations Authority, which accounted for 11% of the Group's accounts receivables as of March 31, 2006, no individual customer accounted for more than 10% of accounts receivable as of March 31, 2006 and 2007.

As of March 31, 2006 and 2007, accounts receivable of RMB6,678,685 and RMB9,427,729, respectively, represented amounts that the Group had the right to bill according to the contract terms, primarily relating to degree major course programs, but related revenue was not recognized until earned.

The activity in the allowance for doubtful accounts for accounts receivable for the years ended March 31, 2006 and 2007 were as follows:

	Year Ended March 31,	
	2006	2007
	RMB	RMB
Beginning allowance for doubtful accounts	1,008,295	1,940,422
Additions charged to bad debt expense	932,127	499,729
Write-off of accounts receivable	—	—
<b>Ending allowance for doubtful accounts</b>	<b><u>1,940,422</u></b>	<b><u>2,440,151</u></b>

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

Prepaid expenses and other current assets consist of the following:

	March 31,	
	2006	2007
	RMB	RMB
Prepaid royalty(a)	76,120	4,632,656
Prepaid business tax	1,001,212	1,573,799
Advances to third parties	775,000	778,568
Advances to employees	928,630	504,721
Advances to suppliers	66,800	804,812
Other current assets(b)	847,320	3,938,739
<b>Total</b>	<b>3,695,082</b>	<b>12,233,295</b>

(a) The balance as of March 31, 2006 and 2007 mainly included a prepaid royalty fee to Microsoft. According to the contract provisions, the royalty is paid based on forecasted usage and is charged to expense as cost of revenues in the consolidated statements of operations based on actual usage.

(b) The balance as of March 31, 2006 and 2007 mainly included prepaid marketing fees, lease receivable and current deferred income tax assets.

**(5) INVESTMENTS IN AFFILIATES**

The Group's investments in affiliated companies which are all non-listed PRC companies were as follows:

Name of Company	Form of Business Structure	Percentage of Equity Held by the Company's Subsidiaries or VIE		Principal Activities
		2006 %	2007 %	
Jiangsu ATA Software Co., Ltd. ("ATA Jiangsu")	Limited liability	30	—	Computer-based testing service Investment in software related education industry
Xiamen Wendu Software Education Investment ("Wendu Education")	Limited liability	40	40	

ATA Jiangsu had incurred substantial operating losses and as of March 31, 2003, the Group's carrying amount in that investment was reduced to zero. The Group suspended the application of the equity method of accounting since that time. As a result of the completion of ATA Jiangsu's liquidation on May 10, 2006, the Group recognized a gain of RMB1,509,228, including RMB29,141 cash collection and RMB1,480,087 forgiveness of a liability. In April 2007, the Group received liquidation proceeds of RMB988,133 in cash from ATA Jiangsu's major shareholder which was recognized as a gain upon receipt.

In April 2005, ATA Learning, with other unrelated investors, established Wendu Education. ATA Learning contributed cash in the amount of RMB4,000,000 in exchange for a 40% equity ownership interest. In June 2006, ATA Learning resolved to sell its equity interest in Wendu Education for RMB6,000,000 to an unrelated buyer. On September 22, 2006, a deposit of RMB2,000,000 was received

## ATA INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(See Note 8) but the sale of Wendu Education had not been consummated as of March 31, 2007. In April 2007, the remaining balance of RMB4,000,000 was collected.

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

Property and equipment, net consist of the following:

	March 31,	
	2006	2007
	RMB	RMB
Computer equipment	3,459,809	9,345,563
Furniture, fixtures and office equipment	197,208	409,134
Software	774,501	993,501
Motor vehicles	1,042,930	992,930
Leasehold improvements	<u>2,478,170</u>	<u>2,478,170</u>
	7,952,618	14,219,298
Less: Accumulated depreciation and amortization	<u>(4,876,106)</u>	<u>(6,676,114)</u>
<b>Property and equipment, net</b>	<b><u>3,076,512</u></b>	<b><u>7,543,184</u></b>

**(7) NOTE PAYABLE**

On April 12, 2002, a loan agreement was entered with a third-party ("the Lender") for which ATA Testing borrowed RMB19,000,000. The note payable was unsecured and the entire principal amount, including interest at 20% per annum was due on April 11, 2004.

On May 23, 2003, the Lender agreed to extend the maturity of the note payable to May 23, 2005, and concurrent with the extension, the Company issued a warrant to the Lender to purchase up to 20% of the common shares of the Company (See Note 14). Further, the Lender agreed to forgive all previously accrued interest on the loan and to waive all future interest on the loan through May 23, 2005. Management evaluated the debt exchange/modification and concluded it was not a troubled debt restructuring. Further, management assessed whether the exchange/modification was considered "substantial," as defined by EITF Issue No. 96-19, "*Debtor's Accounting for a Modification or Exchange of Debt Instruments*," and concluded it was not a substantial modification. Consequently, the Company recognized a discount to the modified note payable on May 23, 2003 in the amount of RMB4,729,857, which consisted of the then fair value of the warrant (RMB8,651,061) less the accrued interest to date that was forgiven (RMB3,921,204). The loan discount was amortized to expense through May 23, 2005 using the effective interest method. The fair value of the warrant was recognized as an addition to additional paid-in capital on May 23, 2003.

On May 23, 2005, which was the date the note became payable and the warrant was set to expire, the Lender did not require repayment of the loan (instead it became a demand loan) and continued to waive all interest while the Company agreed to extend the maturity of the warrant to the earlier of 30 days after the repayment of the note payable or 30 days after the Company's completion of an initial public offering. Management again evaluated the debt modification and concluded it was not a troubled debt restructuring. Further, management again assessed whether the modification was considered "substantial" and concluded it was not a substantial modification. Consequently, the Company re-determined the fair value of the warrant and recognized a loan discount on May 23, 2005 in the amount of RMB22,379,656 and charged this amount immediately to expense. The fair value of the warrant was recognized as an addition to additional paid-in capital on May 23, 2005.

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

On May 19, 2006, ATA Testing repaid the RMB19,000,000 loan to the Lender and on June 26, 2006, the Company issued 5,479,452 common shares in connection with the exercise of this warrant (See Note 14).

The loan discount charged into the consolidated statements of operations, including loan issuance cost of RMB670,000, was RMB22,713,422 and RMBNil during the years ended March 31, 2006 and 2007, respectively.

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

Accrued expenses and other payables consist of the following:

	March 31,	
	2006	2007
	RMB	RMB
Accrued payroll and welfare	2,671,305	2,786,524
Accrued fees for professional services	1,502,749	1,498,273
Business and other taxes payable	1,188,073	4,210,561
Deposit received toward the sale of an affiliate (See Note 5)	—	2,000,000
Accrued initial public offering costs	—	1,442,805
Other current liabilities	1,314,687	1,794,229
<b>Total accrued expenses and other payables</b>	<b><u>6,676,814</u></b>	<b><u>13,732,392</u></b>

**(9) DEFERRED REVENUES**

Deferred revenues are analyzed as follows:

	March 31,	
	2006	2007
	RMB	RMB
Balance at beginning of year	29,148,947	30,895,614
Additions for the year:		
Test-based educational services	43,720,021	49,884,975
Test preparation solutions	—	185,107
Other revenue	3,255,936	1,835,254
	<u>76,124,904</u>	<u>82,800,950</u>
Reduction for the year:		
Testing services	(352,257)	—
Test-based educational services	(37,275,944)	(45,337,790)
Test preparation solutions	—	(138,145)
Other revenue	(7,601,089)	(3,086,762)
<b>Balance at end of year</b>	<b><u>30,895,614</u></b>	<b><u>34,238,253</u></b>
Representing:		
Current portion	22,340,221	26,341,019
Non-current portion	8,555,393	7,897,234
<b>Total deferred revenues</b>	<b><u>30,895,614</u></b>	<b><u>34,238,253</u></b>

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(10) NET REVENUES**

Components of net revenues for the years ended March 31, 2006 and 2007 were as follows:

	Year Ended March 31,	
	2006	2007
	RMB	RMB
Testing services	18,169,773	24,628,465
Test-based educational services	35,138,112	42,803,677
Test preparation solutions	340,538	10,075,778
Other revenue <sup>(a)</sup>	15,389,049	7,372,957
<b>Total revenues, net</b>	<b>69,037,472</b>	<b>84,880,877</b>

(a) Other revenue primarily includes licensing fees from authorized test centers, test development services, test certificate services and licensing fee from ATA Jianguo (2006 only).

**(11) INCOME TAXES**

The Company and each of its consolidated entities file separate income tax returns.

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

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

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

The Company's consolidated PRC subsidiaries are registered in the PRC as Foreign Invested Enterprise and are generally subject to the PRC foreign enterprise income tax ("FEIT") rate of 33%. ATA Online, the Company's consolidated VIE is registered in the PRC as domestic company and is subject to the PRC enterprise income tax rate of 33%.

In 1999, ATA Testing was granted the status of a "High New Technology Development Enterprise" ("high-tech enterprise") that entitles it to a preferential FEIT rate of 15%. In 2003, ATA Learning was granted the status of a high-tech enterprise that entitles it to a preferential FEIT rate of 15%. In addition, ATA Learning has been granted a "tax holiday" for exemption of FEIT for calendar years 2003 through 2005 and a FEIT holiday rate of 7.5% for calendar years 2006 through 2008.

On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") which will take effect on January 1, 2008. The New Tax Law unified the income tax rate of PRC domestic enterprises and foreign invested enterprises into a standard rate of 25%. According to the New Tax Law, certain high-tech enterprises will continue to be entitled to a reduced tax rate of 15%. The Group currently believes ATA Testing and ATA Learning will continue to qualify as high-tech enterprises under the New Tax Law and therefore management believes the tax status of ATA Testing and ATA Learning has not changed as a result of the New Tax Law. However, detailed implementation rules regarding the preferential tax policies (e.g. the details of how a taxpayer can qualify as a high-tech enterprise under the New Tax Law) have yet to be made public. Any effect on deferred income tax assets and liabilities of a change in tax status as a result of the detailed implementation rules will be recognized in the statement of operations in the period that the change in tax status is known.

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Also, under the New Tax Law, a withholding tax of 20% may be applied on the dividends received by ATA BVI from ATA Testing and ATA Learning after January 1, 2008. However, detailed implementation rules, including whether exemptions from withholding taxes would be granted to holding companies incorporated in certain tax jurisdictions has not yet been announced. Deferred tax liability arising from the withholding tax, if any, cannot be determined as the New Tax Law has not yet been clarified. As a result, no deferred tax liability has been recognized. There are no unremitted earnings from ATA Testing and ATA Learning as of March 31, 2007.

In addition, the Chinese tax system is generally subject to substantial uncertainties and has been subject to recently enacted changes, the interpretation and enforcement of which are also uncertain. There can be no assurance that changes in Chinese tax laws or their interpretation or their application will not subject the Company's PRC entities to substantial Chinese taxes in the future. The above preferential tax treatments enjoyed or enjoying by ATA Testing and ATA Learning may be taken away by the local tax authorities due to such changes.

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

	Year Ended March 31,	
	2006	2007
	RMB	RMB
Current	—	26,187
Deferred	(485,456)	(1,819,345)
<b>Total</b>	<b>(485,456)</b>	<b>(1,793,158)</b>

The components of loss before income tax benefit separating the Group's operations in the Cayman Islands and British Virgin Islands, and the PRC are as follows:

	Year Ended March 31,	
	2006	2007
	RMB	RMB
Operations in the Cayman Islands and British Virgin Islands	(30,194,446)	(18,678,162)
Operations in the PRC	4,899,891	95,152
<b>Loss before income tax benefit</b>	<b>(25,294,555)</b>	<b>(18,583,010)</b>

## ATA INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The actual income tax benefit as reported in the consolidated statements of operations differs from the amounts computed by applying the PRC FEIT rate of 33% to pretax loss as a result of the following:

	Year Ended March 31,	
	2006	2007
	RMB	RMB
Computed "expected" income tax benefit	(8,347,203)	(6,132,393)
Realization of tax loss carryforwards previously provided for	(1,185,570)	(957,566)
Decrease in valuation allowance	—	(1,333,911)
Tax holiday	(544,313)	155,072
Preferential tax rate	(1,468,395)	(555,685)
Foreign tax differential	9,964,167	6,163,793
Deductible software amortization	(330,000)	(330,000)
Non-deductible entertainment expenses	489,713	762,738
Non-deductible bad debt expense	307,602	164,911
Taxable inter-company licensing fees	658,053	767,928
Non-taxable equity income in affiliates	(29,510)	(498,045)
<b>Actual income tax benefit</b>	<b><u>(485,456)</u></b>	<b><u>(1,793,158)</u></b>

The PRC statutory rate has been used since substantially all of the Group's operations, taxable income and income tax expense are generated in the PRC.

The Group's tax holiday increased the actual income tax benefit by RMB544,313 and decreased the actual income tax benefit by RMB155,072 for the years ended March 31, 2006 and 2007, respectively. Basic and diluted loss per common share effect of the tax holiday for the years ended March 31, 2006 and 2007 were RMB(0.03) and RMB0.01, respectively.

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

	March 31,	
	2006	2007
	RMB	RMB
Deferred income tax assets:		
Net operating loss carryforwards	2,685,899	2,208,133
Pre-operating expenses	57,959	32,200
Investment in an affiliate	48,771	62,809
Property and equipment	124,466	141,821
<b>Total gross deferred income tax assets</b>	<b>2,917,095</b>	<b>2,444,963</b>
Less: Valuation allowance	(2,348,786)	(57,309)
<b>Net deferred income tax assets</b>	<b><u>568,309</u></b>	<b><u>2,387,654</u></b>
Current deferred income tax assets, included in prepaid expenses and other current assets	456,620	2,179,206
Non-current deferred income tax assets, included in other non-current assets	111,689	208,448
<b>Total</b>	<b><u>568,309</u></b>	<b><u>2,387,654</u></b>



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Tax loss operating carryforwards of the Group amounted to RMB15,640,901 as of March 31, 2007 of which RMB2,526,847, RMB6,664,859, RMB218,737 and RMB6,230,458 will expire if unused during the years ending March 31, 2008, 2009, 2012 and 2013, respectively.

In assessing the realizability of deferred income tax assets, management considers 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 carryforwards are utilized. Management considers projected future taxable income and tax planning strategies in making this assessment. The largest component of deferred income tax assets is the net operating loss carryforwards generated by ATA Testing. ATA Testing incurred operating losses through 2004. ATA Testing utilized tax loss carryforwards, which were previously provided for, amounting to RMB1,185,570 and RMB957,566, respectively, in the years ended March 31, 2006 and 2007. Management believes that ATA Testing's cumulative operating losses for the three-year period ended March 31, 2006 constituted significant evidence that deferred income tax assets would not be realizable and this evidence outweighed the Group's expectations that ATA Testing would generate future taxable income. Therefore, a valuation allowance of RMB2,348,786 has been provided against ATA Testing's deferred income tax assets as of March 31, 2006. The deferred income tax assets of RMB430,861 recognized on net operating loss generated during the three months ended March 31, 2006 was expected to be recovered within the tax year of 2006, thus no valuation allowance was provided. For the year ended March 31, 2007, management considered the continuous realization of tax loss carryforwards, the marginal cumulative operating losses for the three-year period ended March 31, 2007, the level of non-deductible permanent differences and the Group's expectations of ATA Testing's generation of future taxable income, and concluded that ATA Testing's deferred income tax assets as of March 31, 2007 are more likely than not realizable. Therefore, the Company released the valuation allowance of RMB1,391,220 attributable to ATA Testing's tax loss carryforwards and recognized an income tax benefit in the consolidated statements of operations. The valuation allowance of RMB57,309 as of March 31, 2007 was provided for the net operating loss carryforwards of ATA Online. Due to the short operating history of ATA Online, management does not believe that its deferred income tax assets are more likely than not realizable and therefore, a full valuation allowance was provided against ATA Online's deferred income tax assets as of March 31, 2007. The amount of the net deferred income tax assets considered realizable as of March 31, 2007 could be reduced in the near term if estimates of future taxable income are reduced.

**(12) SHARE BASED COMPENSATION**

***Options granted to officers***

In May 2003, the Company entered into agreements with two executives to grant share options as a reward for their services. The options entitled the executives to purchase up to 1,369,863 common shares at USD0.545 (RMB4.50) per share. The options have a contractual term of 10 years. 50%, 25% and 25% of the options will be vested after the first, second and third anniversary of the date of the grant of the options, respectively. Unvested options expire if the holders cease to be employees of the Group.

On April 12, 2005, the Board of Directors of the Company resolved to accelerate the vesting of the above mentioned options, which would have fully vested in 2006. The accelerated options resulted in compensation expense of RMB296,115 being recognized in the year ended March 31, 2006.

***2005 Share incentive plan***

In April 2005, the Company adopted a share incentive plan (the "Plan"), pursuant to which the Company's Board of Directors may grant share options to officers, employees, directors and consultants of the Group. The Plan authorizes the Company to grant options to purchase up to 2,894,000 common

**ATA INC. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

shares. The Plan expires in ten years. Options awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

On April 12, 2005, 1,312,600 share options were granted to employees and a consultant at an exercise price of USD2.263 (RMB17.48) per share. 25% of options granted vest on May 1, 2006 and the remaining 75% vest ratably each month over the following 36-month period. The contractual term of these share options is 10 years. Of the 1,312,600 options, 860,800 share options become fully vested to the extent the holders cease to be employees, directors or a consultant of the Group.

On December 16, 2005, 951,000 share options were granted to employees at an exercise price of USD3.60 (RMB27.80) per share. 25% of options granted vest on January 1, 2007 and the remaining 75% vest ratably each month over the following 36-month period. The contractual term of these options is 10 years.

On May 26, 2006, 330,400 share options were granted to an officer at an exercise price of USD3.60 (RMB27.80) per share. 25% of options granted vest on May 1, 2007 and the remaining 75% vest ratably each month over the following 36-month period. The contractual term of these options is 10 years.

On December 27, 2006, 250,000 share options were granted to employees at an exercise price of USD3.60 (RMB27.80) per share. 25% of options granted vest on October 31, 2007 and the remaining 75% vest ratably each month over the following 36-month period. The contractual term of these options is 10 years.

A summary of all the option activities for the years ended March 31, 2006 and 2007 is presented below:

	<u>Number of shares</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term</u>	<u>Aggregated intrinsic value</u>
		<b>USD</b>		
Outstanding at April 1, 2005	1,369,863	0.545		
Granted	2,263,600	2.825		
Exercised	—	—		
Forfeited	(120,000)	3.600		
Expired	—	—		
Outstanding at March 31, 2006	3,513,463	1.909		
Granted	580,400	3.600		
Exercised	—	—		
Forfeited	(41,000)	3.600		
Expired	—	—		
Outstanding at March 31, 2007	<u>4,052,863</u>	<u>2.134</u>	<u>7.7 years</u>	<u>USD1,527,397</u>
Fully vested and exercisable as of March 31, 2007	<u>2,694,026</u>	<u>1.512</u>	<u>7.1 years</u>	<u>USD1,527,397</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following is additional information relating to options outstanding as of March 31, 2007:

Options outstanding as of March 31, 2007			Options exercisable as of March 31, 2007		
Number of shares	Exercise price per share	Remaining contractual life	Number of shares	Exercise price per share	Remaining contractual life
	USD			USD	
1,369,863	0.545	6.1 years	1,369,863	0.545	6.1 years
1,312,600	2.263	8.0 years	1,077,288	2.263	8.0 years
790,000	3.600	8.7 years	246,875	3.600	8.7 years
330,400	3.600	9.2 years			
250,000	3.600	9.7 years			
<u>4,052,863</u>	<u>2.134</u>	<u>7.7 years</u>	<u>2,694,026</u>	<u>1.512</u>	<u>7.1 years</u>

Management determined the estimated fair value of each option award to executives, directors, consultants and employees using the Binomial option-pricing valuation model under the assumptions noted in the following table:

	2005 April	2005 December	2006 May	2006 December
Expected volatility	64%	60%	57%	56%
Expected dividends	—	—	—	—
Expected life	9.0 years	9.5 years	9.3 years	8.9 years
Risk-free interest rate (per annum)	4.38%	4.45%	5.06%	4.66%
Estimated fair value at grant date of underlying common shares (per share)	USD0.89	USD0.99	USD1.14	USD1.66

Because the Company does not have an internal market for its shares, the expected volatility was based on the historical volatilities of comparable publicly traded training and testing services companies operating in the United States. The expected term is the period of time the options are expected to be outstanding. Since the share options, once exercised, will primarily trade in the United States capital market and there was no comparable PRC zero coupon rate, the risk-free rate for periods within the contractual life of the option is based on the United States treasury yield curve in effect at the time of grant.

The estimated fair value of the underlying common shares on the date of grant was determined by management based on valuations conducted by Sallmanns (Far East) Limited, an independent third-party valuation firm, on the Company's common shares as of the dates of grant, supplemented by the forecasted profitability and cash flows of the Group estimated by the Company.

The weighted-average grant-date fair value of options granted during the years ended March 31, 2006 and 2007 was USD0.378 (RMB3.095) and USD0.538 (RMB4.258) per share, respectively. The Company recorded share-based compensation expense of RMB4,182,233 and RMB2,497,318 for the years ended March 31, 2006 and 2007, respectively.

As of March 31, 2007, there was RMB2,614,644 of total unrecognized compensation cost related to non-vested share options. This cost is expected to be recognized over the next 4 years.

**(13) CONVERTIBLE PREFERRED SHARES**

The Company is authorized to issue Series A redeemable convertible preferred shares ("Series A Shares") and Series A-1 redeemable convertible preferred shares ("Series A-1 Shares"), which both carry

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

the same rights and are designated as the same class of preferred shares. Series A Shares and Series A-1 Shares are referred to collectively as the "Preferred Shares."

On January 16, 2005, the Company obtained a bridge loan of USD5,000,000 (RMB41,382,500) from SB Asia Investment Fund II, L.P. ("SAIF") in contemplation of the issuance of Series A Shares.

On March 31, 2005, the Company issued 6,628,369 Series A Shares to two investors — SAIF and Winning King Ltd. at USD2.263 (RMB18.730) per share (the "Series A issue price") for a total cash consideration of USD15,000,000 (RMB124,147,500), including conversion of the bridge loan of USD5,000,000 (RMB41,382,500) and accrued interest of USD50,313 (RMB416,416). The accrued interest was added to the initial carrying amount of the Series A Shares.

Total direct external incremental costs of issuing the Series A Shares and warrant of RMB6,191,974 were charged against the proceeds of the Series A Shares.

Prior to March 9, 2006, the Series A Shares were redeemable at the option of the majority of the holders for cash any time after 4 years from the issuance at a redemption price equal to 150% of the Series A issue price, plus accrued but unpaid dividends. Consequently, the Series A Shares were classified outside of permanent equity of the Company at issuance and until March 9, 2006. The accretion to the redemption value was reported as a reduction to earnings to arrive at net loss applicable to common shareholders in the accompanying consolidated statements of operations and amounted to RMB13,889,483 for the year ended March 31, 2006.

On March 9, 2006, the holders of Series A Shares and warrant waived their rights to redeem the then outstanding Series A and Series A-1 Shares. Upon waiver of the redemption feature, the Company reclassified the carrying amount of the Series A Shares amounting to RMB123,286,791 to shareholders' equity.

The significant terms of the Preferred Shares are as follows:

***Conversion***

The holders of Preferred Shares have the right to convert all or any portion of their holdings into common shares of the Company at any time. In addition, each Preferred Share will automatically be converted into common share upon vote or written consent of the holders of more than two-thirds of the then outstanding Preferred Shares or the consummation of a Qualified Public Offering, as defined in the preferred share agreement.

Each Preferred Share is convertible into one common share, subject to a contingent conversion price adjustment if the audited US GAAP consolidated net income of the Group for the year ended December 31, 2005 is less than USD6,000,000 (RMB46,339,200) or the Company does not close or complete a Qualified Public Offering by March 31, 2006. The contingent conversion price adjustment is based on a formula which considers the net income of the Group for the 12 months period ended December 31, 2005 and the valuation of the Company as a result of an initial public offering. As of March 31, 2007, the contingency was not resolved with respect to determining the adjusted conversion price because one of the conditions, the valuation of the Company as a result of an initial public offering, was unknown as of March 31, 2007. Based on the Company's best estimate of the company value, 4,218,402 common shares would have been issuable, if the contingency (the valuation of the Company as a result of an initial public offering) was resolved on March 31, 2007.

The Company has determined that there was no beneficial conversion feature attributable to the Preferred Shares at the date of issuance. The contingent conversion price adjustment may provide the holders of the Preferred Shares with a beneficial conversion feature; however, any such beneficial

**ATA INC. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

conversion feature relating to the conversion ratio adjustment will be recognized when the contingency is resolved.

On March 31, 2005, in conjunction with the issuance of Series A Shares, the Company also issued a warrant to SAIF to purchase an aggregate of 883,783 Series A-1 Shares at an exercise price of USD3.3945 (RMB27.2119). The warrant is exercisable until the earlier of: (i) March 31, 2010; or (ii) the date of closing of a qualified initial public offering.

The warrant permits SAIF to acquire Series A-1 Shares that are redeemable at its option. Therefore, the warrant has been classified separately as a liability (with a corresponding reduction to the carrying amount of the Series A Shares) on the date of issuance at its fair value of RMB5,705,410 (or RMB6.46 per share). The fair value of warrant was determined by first valuing the Company's enterprise value as a whole and then using a top-down approach to allocate the enterprise's equity value, probability weighted to reflect the respective contractual provisions of certain capital or equity transactions of the Company, to different classes of equity, including the warrant. The Black-Scholes option-pricing model under certain capital or equity transactions was used to determine the allocation of equity value to the warrant. Subsequent changes to the fair value of the warrant were reported in the consolidated statements of operations. Immediately prior to the elimination of the redemption feature on March 9, 2006, the Company remeasured the warrant to its fair value of RMB5,916,546 with the increase in fair value of RMB211,136 being recognized as loss from revaluation of preferred share warrant in the consolidated statements of operations. The Company then reclassified the preferred shares into shareholders' equity. The warrant was also reclassified into shareholders' equity at its fair value of RMB5,916,546.

The common shares that will be issued upon conversion of the Preferred Shares as of March 31, 2007 would be 7,512,152, which had been reserved by the Company to satisfy the conversion.

***Voting Rights***

The holders of the Preferred Shares have voting rights equivalent to the common shareholders on an "if converted" basis.

***Dividends***

Prior to March 9, 2006, holders of the Preferred Shares were entitled to receive preferred dividends at an annual rate of 6% of the issue price per annum, out of any funds legally available for this purpose, when and if declared by the Board of Directors of the Company. On March 9, 2006, the holders of Series A Shares and warrant waived their rights to receive dividends prior to any other class or series of shares.

***Appointment of Directors***

Two directors shall be elected by the holders of a majority of the Preferred Shares, voting separately as a class.

***Liquidation Preference***

Prior to March 9, 2006, in the event of any liquidation event (as defined in the Company's Articles of Association), the holders of the Preferred Shares were entitled to receive, prior to any distribution to the holders of any other class or series of shares, an amount per share equal to the 150% of Series A issue price of USD2.263 (RMB18.730), as adjusted for any share splits, share dividends and recapitalization, and the amount payable to common shareholders on an as-converted basis. On March 9, 2006, the holders of Series A Shares and warrant waived their rights to receive 150% of original issue price

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

of Series A and Series A-1 preferred shares upon Liquidation events to instead, receive an amount equal to 100% of the original issue price of Series A and Series A-1 preferred shares upon Liquidation events.

***Restrictions***

The Company may not undertake any of the following actions without the prior approval of directors nominated by the holders of Preferred Shares:

- (i) Undertake merger, amalgamation or consolidation ("Transaction") of the Company with any person who does not own or control at least a majority of the voting power of the combined entity before the Transaction;
- (ii) Sell all or substantially all of the assets of the Company;
- (iii) Liquidate, wind up or dissolve the Company;
- (iv) Authorize, create or issue shares of any class of shares with rights senior to or in parity with the Preferred Shares;
- (v) Reclassify any outstanding shares into shares having preferences or priority as to dividends or assets senior to or in parity with the Preferred Shares; and
- (vi) Increase and decrease the number of directors above seven directors.

On May 1, 2006, SAIF exercised the warrant and purchased 883,783 Series A-1 Shares at USD3.3945 (RMB27.2119) per share. The exercise of the warrant resulted in the issuance of Series A-1 shares at RMB24,049,448 (USD3,000,000).

**(14) COMMON SHARES**

***Common share warrants granted to third parties***

On May 23, 2003, the Company issued a warrant to the Lender in connection with a debt modification (See Note 7) to purchase 5,479,452 common shares of the Company for RMB19,000,000. The warrant was initially set to expire on May 23, 2005, but was extended on that date to expire at the earlier of: i) 30 days after ATA Testing repays the note payable of RMB19,000,000; or ii) 30 days after the Company completes its initial public offering. The fair value of the warrant granted on May 23, 2003 was determined to be RMB8,651,061, which was the present value of the total forgiven interest payable under the original terms of the note payable. The Company believes that the present value of the forgiven interest based on the contractual interest rate is a more reliable evidence for the fair value of the warrant than any other valuation of the warrant on a stand-alone basis. The value of this warrant has been recognized as additional paid-in capital in connection with the loan modification.

On May 23, 2005, as a result of a further loan modification and the extension of the warrant's maturity, the Company re-determined the fair value of the warrant to be RMB22,379,656, based on an independent valuation by Sallmanns (Far East) Limited using the Black-Scholes option pricing model. The fair value of this warrant has been recognized as additional paid-in capital in connection with the second loan modification.

In June 2006, the Lender exercised the warrant and purchased 5,479,452 common shares at a total price of RMB19,000,000. The excess of the total price over the par value of the common shares of RMB438,564 amounting to RMB18,561,436 was charged against additional paid-in capital.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(15) COMMITMENTS AND CONTINGENCIES**

The Group entered into non-cancelable operating leases, primarily for office buildings, for initial terms of one to five years, without renewal options.

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

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2007 are:

	<u>Minimum Lease Amount</u>
	<u>RMB</u>
Year ended March 31, 2008	4,110,167
Year ended March 31, 2009	4,899,390
Year ended March 31, 2010	4,070,714
Year ended March 31, 2011	1,664,742
	<u>14,745,013</u>

Rental expense for operating leases (except those with lease terms of a month or less that were not renewed) for the years ended March 31, 2006 and 2007 were RMB3,162,284 and RMB4,259,792, respectively.

**(16) LOSS PER SHARE**

Basic and diluted loss per common share is as follows:

	<u>Year Ended March 31,</u>	
	<u>2006</u>	<u>2007</u>
	<u>RMB</u>	<u>RMB</u>
Net loss applicable to common shareholders	35,429,358	16,789,852
Denominator for basic and diluted loss per share:		
Weighted average common shares outstanding	<u>16,420,680</u>	<u>20,594,071</u>
Basic and diluted loss per share	<u>2.16</u>	<u>0.82</u>

The Company's common equivalent shares for the years ended March 31, 2006 and 2007 consist of 645,033 and 920,119 common shares issuable upon exercise of share options, respectively (using the treasury stock method); 3,436,529 and 1,143,994 common shares issuable upon exercise of warrants, respectively (using the treasury stock method); and 10,846,771 and 11,655,493 common shares issuable upon conversion of Preferred Shares (using the as-converted method), respectively. For the years ended March 31, 2006 and 2007, all common equivalent shares in the diluted loss per share computation were excluded as their effect would be anti-dilutive.



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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(17) RELATED PARTY TRANSACTIONS**

The principal related party transactions during the years ended March 31, 2006 and 2007 were as follows:

	Note	Year Ended March 31,	
		2006	2007
		RMB	RMB
Loan collection from Yinchuan Holding and Yinchuan Holding's subsidiary, including interest and business tax	(a)	21,378,898	—
Loans to (collection from) Keying Shiji Co., Ltd. ("Keying")	(e)	540,000	(540,000)
Loan repaid to Yinchuan Holding	(b)	3,000,000	—
Financing repaid to Yinchuan Holding including accrued interest expenses	(h)	37,630,670	—
Income from assigned interests in service contracts from ATA Jiangsu, net of business tax	(f)	4,373,958	—
Expenses paid by (repaid to) ATA Jiangsu	(g)	43,869	(60,857)
Forgiveness of a liability to ATA Jiangsu	(g)	—	1,480,087
Collection from ATA Jiangsu as a result of the liquidation	(g)	—	29,141
Advances to shareholders and management:			
- Operations related	(c)	984,543	2,631,924
- Other	(d)	602,554	1,655,213
Collection of advances to shareholders and management:			
- Operations related	(c)	178,296	3,501,960
- Other	(d)	—	4,593,746
Advances from shareholders and management:			
- Operations related	(c)	102,772	—
Repayment of advances from shareholders and management:			
- Operations related	(c)	67,471	102,776
- Other	(d)	4,081,480	—

Amounts due from and due to related parties were as follows:

	Note	March 31,	
		2006	2007
		RMB	RMB
Current assets:			
Due from Keying	(e)	540,000	—
Due from shareholders and management	(c)&(d)	3,828,339	19,770
<b>Total</b>		<b>4,368,339</b>	<b>19,770</b>
Current liabilities:			
Due to ATA Jiangsu	(g)	1,540,944	—
Due to shareholders and management	(d)	102,776	—
<b>Total</b>		<b>1,643,720</b>	<b>—</b>

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Notes:

- (a) Yinchuan Holding held 60% of the equity interest of ATA Learning prior to May 9, 2005. Yinchuan Holding and its subsidiary borrowed RMB20,000,000 from ATA Learning in December 2003. The loan was unsecured and interest accrued at bank lending rate prescribed by the PBOC, originally due for collection on December 31, 2004 and was subsequently extended until collected with interest on June 1, 2005.
- (b) In February 2003, ATA Testing borrowed RMB5,000,000 from Yinchuan Holding. The borrowing was unsecured, interest free and repayable on demand. Yinchuan Holding agreed to forgive RMB2,000,000 out of the total loan balance of RMB5,000,000. Such forgiveness was connected to the exercise of call option for RMB30,000,000 by ATA BVI (See (h)). Upon the extinguishment of this obligation, ATA Testing recognized a RMB2,000,000 gain in the consolidated statement of operations for the year ended March 31, 2005. ATA Testing repaid the remaining RMB3,000,000 on June 1, 2005.
- (c) The management and shareholders of the Group received business advances from the Group for the Group's daily operation purposes. The amounts are unsecured, interest free and repayable on demand. The balances due from management and shareholders were charged in the consolidated statements of operations when expenses were incurred.
- (d) The management and shareholders of the Group periodically provided advances to the Group for working capital purposes or received advances from the Group for their personal use. The amounts are unsecured, interest free and repayable on demand. The balances due to/from management and shareholders were settled periodically and were fully settled as of March 31, 2007.
- (e) Two executive officers of the Group, own 90% and 10% shares, respectively, of Keying. The loans made during the year ended March 31, 2006 were to finance Keying's working capital and were interest free, unsecured and repayable on demand. Keying repaid the loan in full during the year ended March 31, 2007.
- (f) In March 2002, ATA Testing entered into an agreement with ATA Jiangsu (an affiliate of the Company) to assign ATA Testing's interests and rights in certain services contracts. ATA Testing collected RMB6,500,000 related to the assignment of these contracts. ATA Testing estimated that these service contracts would generate revenue for 10 years and would provide ongoing technical support during the period of service contracts. As a result, ATA Testing initially deferred the recognition of such revenue and was recognizing the RMB6,500,000 into income ratably over the 10 year period. In December 2005, ATA Jiangsu commenced a voluntary winding up, which was completed in May 2006. Consequently, ATA determined it would no longer be required to provide ongoing technical support. Therefore, ATA Testing recognized the remaining portion of the deferred revenue into income during the year ended March 31, 2006. For the years ended March 31, 2006 and 2007, the Group recognized revenue from assignment of interest in service contracts of RMB4,373,958 and RMBNil, respectively.
- (g) ATA Jiangsu paid certain operating expenses on behalf of ATA Testing. Such expenses were charged into the consolidated statements of operations when incurred. RMB60,857 of March 31, 2006 balance was settled by cash and the remaining balance of RMB1,480,087 was recognized as a gain from the liquidation of ATA Jiangsu's net assets.
- (h) Upon the formation of ATA Learning in 2003, Yinchuan Holding contributed RMB30,000,000 in cash for a 60% equity ownership interest. ATA BVI was granted a call option that allowed it to acquire Yinchuan Holding's 60% equity interest for RMB30,000,000, and Yinchuan Holding was granted a put option that, upon exercise, obligated ATA BVI to purchase Yinchuan Holding's 60% equity interest for RMB30,000,000. Both the call option and put option expired the earlier of  
(i) the

**ATA INC. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

end of the fourth fiscal year end since ATA Learning's formation or (ii) the point when ATA Learning reaches an accumulative net income of RMB30,000,000. Since ATA BVI was the primary beneficiary of ATA Learning and was consolidating ATA Learning in accordance with FIN 46R, Yinchuan Holding's RMB30,000,000 cash contribution was accounted for by ATA BVI as a financing arrangement pursuant to the provisions of EITF Issue No. 00-04 *"Majority Owner's Accounting for a Transaction in the Share of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary."* To the extent that the financing was repaid at any time prior to the end of a calendar year (as effected through exercise of the option), Yinchuan Holding was not entitled to receive a pro rata share of ATA Learning's earnings for that calendar year. On May 9, 2005, ATA BVI exercised the call option to acquire the remaining 60% of the equity interest in ATA Learning from Yinchuan Holding for RMB30,000,000, and the accrued unpaid "interest" of RMB7,630,670 was paid by June 1, 2005. Consequently, upon exercise of the call option in May 2005 that resulted in the repayment of the financing arrangement, no interest expense with respect to this arrangement was recognized for the period from January 2005 to May 2005.

**(18) ATA INC. ("Parent Company")**

Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries and VIE only out of their retained earnings, if any, as determined in accordance with the PRC accounting standards and regulations. There are no retained earnings available for distribution as of March 31, 2007 as ATA Testing, ATA Learning and ATA Online all recorded accumulated losses in their financial statements prepared in accordance with the PRC accounting standards and regulations.

In accordance with the relevant laws and regulations for sino-foreign investment enterprises incorporated under the Law of the PRC on Joint Venture Using Chinese and Foreign Investment, ATA Learning is required to make appropriation of net income to general reserve fund, enterprise expansion fund and staff and workers' welfare and bonus fund ("Funds") at the discretion of the board of directors. ATA Learning decided not to appropriate after tax income to Funds for the year ended December 31, 2004 (the statutory financial year for all PRC enterprises is from January 1 to December 31). In May 2005, ATA Learning was converted to a wholly-owned foreign enterprise after acquisition of 60% of its equity interest by ATA BVI (See Note 1). Under the PRC Company Law and the Law of the PRC on Enterprises with Wholly Owned Foreign Investment, ATA Testing, ATA Learning and ATA Online are required to allocate at least 10% of their after tax income, after making good of accumulated losses as reported in their PRC statutory financial statements, to the general reserve fund/statutory surplus reserve and have the right to discontinue allocations to the general reserve fund/statutory surplus reserve if the balance of such reserve has reached 50% of their registered capital. These statutory reserves are not available for distribution to the shareholders (except in liquidation) and may not be transferred in the form of loans, advances, or cash dividend.

No after tax income were appropriated from retained earnings and set aside for these statutory reserves by ATA Testing, ATA Learning and ATA Online on or before March 31, 2007.

As a result of these PRC laws and regulations, the Group's PRC subsidiaries and VIE are restricted in their ability to transfer a portion of their net assets either in the form of dividends, loans or advances, which restricted portion, consisted of paid-up capital, capital surplus and accumulated deficit, amounted to RMB39,833,084 as of March 31, 2007.

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

**Condensed Balance Sheets**

	March 31,	
	2006	2007
	RMB	RMB
Cash	2,281,186	6,640,823
Prepaid expenses and other current assets	101,489	48,380
Investments in subsidiaries and variable interest entity	62,367,930	75,240,501
Deferred initial public offering costs	—	9,462,485
<b>Total assets</b>	<b>64,750,605</b>	<b>91,392,189</b>
Other payables	1,502,207	3,030,352
Guaranteed obligation for losses of subsidiaries and variable interest entity	37,356,647	33,713,172
<b>Shareholders' equity:</b>		
Convertible preferred shares	533,451	604,299
Common shares	1,655,313	2,093,877
Treasury shares	(16,106,940)	(16,106,940)
Additional paid-in capital	158,102,092	203,139,446
Accumulated deficit	(118,292,165)	(135,082,017)
<b>Total shareholders' equity</b>	<b>25,891,751</b>	<b>54,648,665</b>
<b>Total liabilities and shareholders' equity</b>	<b>64,750,605</b>	<b>91,392,189</b>

The Company had no contingent obligations other than guaranteed obligation for losses of subsidiaries and variable interest entity, as discussed above, as of March 31, 2006 and 2007.

**Condensed Statements of Operations**

	Year Ended March 31,	
	2006	2007
	RMB	RMB
General and administrative expenses	(5,921,927)	(16,187,897)
Other expenses	(1,507,890)	(2,922,571)
Interest expenses	(22,713,422)	—
Loss from revaluation of preferred share warrant	(211,136)	—
Interest income	159,929	432,306
Equity in income from subsidiaries and variable interest entity	5,385,347	1,888,310
<b>Net loss</b>	<b>(24,809,099)</b>	<b>(16,789,852)</b>
Accretion of Series A redeemable convertible preferred shares to redemption value	(13,889,483)	—
Foreign currency exchange translation adjustment on Series A redeemable convertible preferred shares	3,269,224	—
<b>Net loss applicable to common shareholders</b>	<b>(35,429,358)</b>	<b>(16,789,852)</b>

**ATA INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**Condensed Statements of Cash Flows**

	Year Ended March 31,	
	2006	2007
	RMB	RMB
Cash flows from operating activities:		
Net loss	(24,809,099)	(16,789,852)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of loan discount	22,713,422	—
Unrealized foreign currency exchange loss	535,741	1,567,582
Loss on revaluation of preferred share warrant	211,136	—
Share-based compensation	4,182,233	2,497,318
Equity in income of subsidiaries and variable interest entity	(5,385,347)	(1,888,310)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(101,489)	53,109
Other payables	(1,456,563)	85,340
<b>Net cash used in operating activities</b>	<b>(4,109,966)</b>	<b>(14,474,813)</b>
Cash flows from investing activities:		
Contribution made to ATA Testing	(19,384,391)	—
Advances to subsidiaries	(26,046,003)	(15,032,756)
Loans to related parties	—	(1,000,000)
<b>Net cash used in investing activities</b>	<b>(45,430,394)</b>	<b>(16,032,756)</b>
Cash flows from financing activities:		
Proceeds from issuance of common shares	—	19,000,000
Proceeds from issuance of preferred shares	—	24,049,448
Cash paid to settle a debt from an investor of ATA Learning	(30,000,000)	—
Cash paid for preferred shares and warrants issuance cost	(4,061,003)	—
Cash paid for initial public offering costs	—	(8,019,680)
<b>Net cash (used in) provided by financing activities</b>	<b>(34,061,003)</b>	<b>35,029,768</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(73,341)</b>	<b>(162,562)</b>
Net (decrease) increase in cash	(83,674,704)	4,359,637
Cash at beginning of year	85,955,890	2,281,186
<b>Cash at end of year</b>	<b><u>2,281,186</u></b>	<b><u>6,640,823</u></b>

**(19) SUBSEQUENT EVENTS**

**(a) Adjustment to the conversion price of Series A Shares**

On July 2, 2007, the Company and the holders of the Series A Shares agreed to adjust the conversion price of Series A Shares to common shares from USD2.263 to USD1.3829 per share according to the mechanism stipulated in the Company's memorandum and articles of association. Accordingly, on a fully-converted basis, Series A Shares will be converted to 10,846,771 common shares under the adjusted conversion price.

ATA INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company has also determined that the non-detachable conversion feature had no intrinsic value on July 2, 2007, when the contingency was resolved, as the commitment-date fair value (USD0.89) of the underlying common shares of the Company issuable upon conversion is lower than the adjusted conversion price of Series A Shares. Therefore, no beneficial conversion feature was recognised. The fair value of the underlying common shares of the Company was determined by Sallmanns (Far East) Limited, an independent third-party valuation firm, using an income approach. Since the Company's capital structure comprised a warrant, common shares and Preferred Shares, the equity value was allocated between each class of equity securities using the option pricing method. The option pricing method treats the warrant, common shares and Preferred Shares as call options on the equity value with exercise prices based on the warrant's exercise price and liquidation preferences of the Preferred Shares.

On July 2, 2007, the Company also resolved that the number of common shares, which were reserved for the purpose of issuing upon conversion of the Series A and Series A-1 shares, were adjusted to 11,730,554.

**(b) Grant of stock options**

On October 1, 2007, the Group's board of directors approved the grant of 391,800 options to purchase common shares at an exercise price of USD3.60 per common share. 25% of the options granted vest on January 1, 2008 and the remaining 75% vest ratably at the end of each month over the following 30-month period. The contractual term of these options is 10 years. Based on the preliminary valuation performed by Sallmanns (Far East) Limited, an independent valuation firm, the grant-date fair value of the 391,800 options is estimated at approximately RMB18,500,000 (unaudited). Sallmanns (Far East) Limited used the binomial option pricing model. The assumptions used in determining the fair value of the options were as follows: expected volatility of 43%, expected dividend rate of 0%, expected life of 1.8 years, risk-free interest rate of 4.56% per annum, and estimated fair market value of underlying shares of USD9.52 (the mid-point of the estimated range of the initial public offering price of this offering after a discount of 9.16% to account for inherent business risk and lack of marketability)(Unaudited).

**(c) Acquisition of equity interests in Beijing Jindixin Software Technology Company Limited ("Beijing Jindixin") and JDX Holdings Limited**

On October 15, 2007, the Company entered into definitive agreements to purchase the entire equity interests of Beijing Jindixin and JDX Holdings Limited for total cash consideration of RMB10 million. Beijing Jindixin is a PRC incorporated entity primarily engaged in the development and marketing of software for computer-based tests. JDX Holdings Limited is a British Virgin Islands incorporated entity established by the equity holders of Beijing Jindixin to receive permanent and exclusive licensing rights for the use of technology owned by Beijing Jindixin. On October 15, 2007, a deposit of RMB2 million in the aggregate was made to the sellers with the remainder of the consideration due upon closing. The transaction is expected to close within 90 days of the date of the agreements, subject to satisfaction of customary closing conditions. In conjunction with the acquisition, the Company also issued to certain of the sellers warrants for the purchase of an aggregate of 126,803 of the Company's common shares at a strike price of USD5.25 per share, which warrants are exercisable upon the closing of the transaction and expire on January 13, 2008. On the date of issuance, the estimated intrinsic value of the warrants granted to certain of the sellers approximated RMB 4.1 million (USD0.5 million) based on the estimated fair market value of underlying shares of USD9.52 (the mid-point of the estimated range of the initial public offering price of this offering after a discount of 9.16% to account for inherent business risk and lack of marketability).

The acquisition of the equity interest of Beijing Jindixin and JDX Holdings Limited will be accounted for in accordance with SFAS No. 141, "Business Combinations." The results of Beijing Jindixin

**ATA INC. AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

and JDX Holdings Limited will be included in the consolidated results and financial position of the Group for the periods subsequent to the consummation of the acquisition.

This acquisition is being made to expand the Group's business by allowing the Group to market test delivery services to test sponsors that are using test and content management software developed by Beijing Jindixin, expand our scope of services to test sponsors that wish to outsource their test management systems, and leverage the relationship developed by the management of Beijing Jindixin with test sponsors.

**(d) Extension of warrants**

In connection with the warrants issued related to the acquisition of JDX Holding Limited as disclosed in Note 19(c) above, on January 5, 2008, the expiration date of the warrants was extended to April 30, 2008.

**(20) PRO FORMA LOSS PER SHARE (UNAUDITED)**

If the Company completes an initial public offering under the terms presently anticipated, all of the Preferred Shares will be converted to 11,730,554 common shares immediately prior to the completion of the offering. The pro forma basic loss per share data gives full effect as if the conversion of the Preferred Shares had taken place on April 1, 2006 to reflect the pro forma presentation for the year ended March 31, 2007.

Securities that could potentially dilute pro forma basic loss per share include share options. The computation of pro forma diluted loss per share for the year ended March 31, 2007, did not assume exercise of share options because their effect would all be anti-dilutive.

The pro forma basic and diluted loss per share has been calculated as follows:

	<u>Year Ended March 31, 2007</u>
	<u>RMB</u>
Net loss applicable to common shareholders as reported	16,789,852
Denominator for basic loss per share:	
Weighted average common share outstanding	20,594,071
Conversion of Preferred Shares	<u>11,730,554</u>
	<u>32,324,625</u>
Pro forma basic and diluted loss per share	<u>0.52</u>



**ATA INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	Note	March 31, 2007	September 30, 2007	September 30, 2007 (Note 1) USD
		RMB	RMB	USD
<b>ASSETS</b>				
<i>Current assets:</i>				
Cash		45,019,114	52,567,487	7,015,733
Accounts receivable, net	(3)	16,977,651	29,611,903	3,952,048
Due from related parties		19,770	—	—
Inventories		2,405,912	2,435,439	325,037
Prepaid expenses and other current assets		<u>12,233,295</u>	<u>13,129,413</u>	<u>1,752,271</u>
<b>Total current assets</b>		<b><u>76,655,742</u></b>	<b><u>97,744,242</u></b>	<b><u>13,045,089</u></b>
Investment in an affiliate	(4)	3,162,548	—	—
Property and equipment, net	(5)	7,543,184	8,641,821	1,153,350
Goodwill		6,880,123	6,880,123	918,231
Deferred initial public offering costs		9,462,485	12,777,888	1,716,850
Other assets		<u>4,461,368</u>	<u>4,990,251</u>	<u>654,512</u>
<b>Total assets</b>		<b><u>108,165,450</u></b>	<b><u>131,034,325</u></b>	<b><u>17,488,032</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<i>Current liabilities:</i>				
Accounts payable		5,546,140	4,297,789	573,589
Accrued expenses and other payables	(6)	13,732,392	27,782,741	3,707,925
Deferred revenues		<u>26,341,019</u>	<u>27,177,105</u>	<u>3,627,096</u>
<b>Total current liabilities</b>		<b><u>45,619,551</u></b>	<b><u>59,257,635</u></b>	<b><u>7,908,610</u></b>
Deferred revenues		<u>7,897,234</u>	<u>7,547,070</u>	<u>1,007,243</u>
<b>Total liabilities</b>		<b><u>53,516,785</u></b>	<b><u>66,804,705</u></b>	<b><u>8,915,853</u></b>
<i>Shareholders' equity:</i>				
Convertible preferred shares:				
USD0.01 par value; 10,000,000 shares authorized, including:				
Series A preferred shares:				
6,628,369 issued USD15,000,000 liquidation value				
		533,451	533,451	71,195
Series A-1 preferred shares:				
883,783 issued USD3,000,000 liquidation value				
		70,848	70,848	9,456
Common shares:				
USD0.01 par value 40,000,000 shares authorized 25,479,452 shares issued				
		2,093,877	2,093,877	279,452
Treasury shares — 3,579,320 common shares, at cost				
		(16,106,940)	(16,106,940)	(2,149,656)
Additional paid-in capital	(9)	203,139,446	204,190,236	27,251,526
Accumulated deficit		<u>(135,082,017)</u>	<u>(126,551,852)</u>	<u>(16,889,794)</u>
<b>Total shareholders' equity</b>		<b><u>54,648,665</u></b>	<b><u>64,229,620</u></b>	<b><u>8,572,179</u></b>
Commitments and contingencies	(11)			
<b>Total liabilities and shareholders' equity</b>		<b><u>108,165,450</u></b>	<b><u>131,034,325</u></b>	<b><u>17,488,032</u></b>

See the accompanying notes to unaudited condensed consolidated financial statements.

**ATA INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Note	Six-month Period Ended September 30,		
		2006	2007	2007
		RMB	RMB	(Note 1) USD
Net revenues	(7)	32,368,428	76,248,429	10,176,226
Cost of revenues		<u>18,750,871</u>	<u>32,777,269</u>	<u>4,374,502</u>
<b>Gross profit</b>		<b>13,617,557</b>	<b>43,471,160</b>	<b>5,801,724</b>
<b>Operating expenses:</b>				
Research and development		4,017,439	5,286,358	705,525
Sales and marketing		10,842,730	12,094,238	1,614,115
General and administrative		12,316,047	17,354,747	2,316,189
<b>Total operating expenses</b>		<b><u>27,176,216</u></b>	<b><u>34,735,343</u></b>	<b><u>4,635,829</u></b>
<b>Income (loss) from operations</b>		<b>(13,558,659)</b>	<b>8,735,817</b>	<b>1,165,895</b>
Equity in net loss of an affiliate	(4)	(320,515)	—	—
Gain from sale of an affiliate	(4)	—	2,837,451	378,690
Gains from liquidation of an affiliate	(4)	1,509,228	988,133	131,878
Interest income		349,157	270,097	36,048
Foreign currency exchange losses, net		(519,235)	(186,299)	(24,864)
<b>Income (loss) before income taxes</b>		<b>(12,540,024)</b>	<b>12,645,199</b>	<b>1,687,647</b>
Income tax benefit (expense)	(8)	683,128	(4,115,034)	(549,199)
<b>Net income (loss)</b>		<b><u>(11,856,896)</u></b>	<b><u>8,530,165</u></b>	<b><u>1,138,448</u></b>
Basic earnings (loss) per common share	(12)	(0.61)	0.39	0.05
Diluted earnings (loss) per common share	(12)	(0.61)	0.23	0.03
Proforma basic earnings per common share	(14)		0.25	0.03
Proforma diluted earnings per common share	(14)		0.23	0.03

See the accompanying notes to unaudited condensed consolidated financial statements.

ATA INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Convertible Preferred Shares				Common Shares			Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Number of Series A Shares	Amount	Number of Series A-1 Shares	Amount	Number of Shares	Amount	Treasury Shares			
		RMB		RMB		RMB	RMB			
Balance as of March 31, 2007	6,628,369	533,451	883,783	70,848	25,479,452	2,093,877	(16,106,940)	203,139,446	(135,082,017)	54,648,665
Share option expense (See Note 9)	—	—	—	—	—	—	—	1,050,790	—	1,050,790
Net income	—	—	—	—	—	—	—	—	8,530,165	8,530,165
Balance as of September 30, 2007	<u>6,628,369</u>	<u>533,451</u>	<u>883,783</u>	<u>70,848</u>	<u>25,479,452</u>	<u>2,093,877</u>	<u>(16,106,940)</u>	<u>204,190,236</u>	<u>(126,551,852)</u>	<u>64,229,620</u>
Balance as of September 30, 2007 — USD (See Note 1)		<u>71,195</u>		<u>9,456</u>		<u>279,452</u>	<u>(2,149,656)</u>	<u>27,251,526</u>	<u>(16,889,794)</u>	<u>8,572,179</u>

See the accompanying notes to unaudited condensed consolidated financial statements.

**ATA INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six-month Period Ended September 30,		
	2006	2007	2007
	RMB	RMB	(Note 1) USD
<b>Cash flows from operating activities:</b>			
Net income (loss)	(11,856,896)	8,530,165	1,138,448
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in net loss of an affiliate	320,515	—	—
Gain from liquidation of an affiliate	(1,509,228)	(988,133)	(131,878)
Gain from sale of an affiliate	—	(2,837,451)	(378,690)
Unrealized foreign currency exchange loss	460,521	163,175	21,778
Bad debt expense	44,984	467,997	62,460
Inventory write-down	—	17,437	2,327
Depreciation and amortization	737,714	1,216,059	162,297
Gain from disposal of property and equipment	—	(150,841)	(20,131)
Share-based compensation	1,239,532	1,050,790	140,240
Deferred income tax expense (benefit)	(683,128)	2,216,293	295,790
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable	(3,598,947)	(13,102,249)	(1,748,645)
Due from related parties	(637,404)	19,770	2,639
Inventories	(421,761)	(46,964)	(6,268)
Prepaid expenses and other current assets	(795,628)	(2,990,091)	(399,062)
Other assets	447,542	(309,701)	(41,333)
Accounts payable	3,688,494	(1,248,351)	(166,607)
Due to related parties	(163,633)	—	—
Accrued expenses and other payables	484,158	13,563,831	1,810,247
Deferred revenues	(11,267,571)	485,922	64,852
<b>Net cash provided by (used in) operating activities</b>	<b>(23,510,736)</b>	<b>6,057,658</b>	<b>808,464</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(3,348,028)	(2,558,407)	(341,449)
Proceeds from disposal of property and equipment	—	53,050	7,080
Deposit from sale of an affiliate	2,000,000	4,000,000	533,846
Proceeds from liquidation of an affiliate	29,141	988,133	131,878
Proceeds from disposal of an affiliate	250,000	—	—
Advances and loans to related parties	(1,571,850)	—	—
Collection of advances and loans to related parties	2,354,450	—	—
<b>Net cash provided by (used in) investing activities</b>	<b>(286,287)</b>	<b>2,482,776</b>	<b>331,355</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common shares	19,000,000	—	—
Proceeds from issuance of preferred shares	24,049,448	—	—
Cash paid for initial public offering costs	(2,138,542)	(828,886)	(110,624)
Repayment of note payable	(19,000,000)	—	—
<b>Net cash provided by (used in) financing activities</b>	<b>21,910,906</b>	<b>(828,886)</b>	<b>(110,624)</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(460,521)</b>	<b>(163,175)</b>	<b>(21,778)</b>
Net increase in cash	(2,346,638)	7,548,373	1,007,417
Cash at beginning of period	44,624,314	45,019,114	6,008,316
<b>Cash at end of period</b>	<b>42,277,676</b>	<b>52,567,487</b>	<b>7,015,733</b>
<i>Supplemental disclosures of cash flow information:</i>			
Cash paid for income tax	—	12,543	1,674
<b>Non-cash investing and financing activities:</b>			
Forgiven liability due to ATA Jiangsu	1,480,087	—	—
Deferred initial public offering costs included in accrued expenses	5,294,839	3,315,403	442,479

See the accompanying notes to unaudited condensed consolidated financial statements.

**ATA INC. AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) ORGANIZATION, DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SIGNIFICANT CONCETRATIONS OF RISK**

***Organization and Description of Business***

The accompanying unaudited condensed consolidated financial statements include the financial statements of ATA Inc. (the "Company"), its subsidiaries, ATA Testing Authority (Holdings) Limited ("ATA BVI"), ATA Testing Authority (Beijing) Limited ("ATA Testing") and ATA Learning (Beijing) Inc. ("ATA Learning"), and a consolidated variable interest entity ("VIE"), ATA Online (Beijing) Education Technology Limited ("ATA Online"). The Company, its consolidated subsidiaries and consolidated VIE are collectively referred to as the "Group." The Group is a provider of computer-based testing services, test-based educational services, test preparation solutions and other related services in the People's Republic of China (the "PRC").

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted under the rules and regulations of the U.S. Securities and Exchange Commission. The March 31, 2007 condensed consolidated balance sheet was derived from the audited financial statements of the Group. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Group's consolidated financial statements and the notes thereto for the years ended March 31, 2006 and 2007.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of September 30, 2007, and the results of operations and cash flows for the six-month periods ended September 30, 2006 and 2007, have been made.

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

The Group has experienced, and expects to continue to experience, seasonal fluctuations in revenue, primarily due to the seasonal changes in student enrollments and completion of examinations by test takers. Consequently, the Group's financial position, operating results, cash flows and trends in these unaudited condensed consolidated financial statements are not necessarily indicative of future results that may be expected for any other interim period or for the full year.

For the convenience of readers, certain Renmibi ("RMB") amounts as of and for the six-month period ended September 30, 2007 included in the accompanying unaudited condensed consolidated financial statements have been translated into United States dollars ("USD") at the rate of USD1.00 = RMB7.4928, being the noon buying rate of USD in effect on September 28, 2007 in the City of New York for cable transfer in RMB per USD as certified for custom purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into USD at that rate or at any other certain rate on September 28, 2007.

## ATA INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Significant Concentrations and Risks**

The success of the Group's business going forward will rely in large part on its ability to continue to obtain business from its existing clients and maintain its relationships with key Chinese governmental agencies. The Group's success will depend to a large extent on its ability to convince its clients that the Group's technologies and services are valuable and that it is more cost-effective for those clients to utilize the Group's services than for them to develop similar services in-house. RMB19.3 million and RMB16.4 million, representing 59.6% and 20.6%, of its total net revenues for the six months ended September 30, 2006 and 2007, respectively, were generated from licensing and service fees from Chinese governmental agencies and educational institutions controlled by the PRC government. Demand and ability to pay for the Group's products and services by these agencies and institutions are affected by government budgetary cycles, funding availability and government policies. Funding reductions, reallocations or delays could adversely impact demand for the Group's products and services or reduce the fees the Group's clients are willing to pay for such products and services. The Chinese markets for testing services, test-based educational services and test preparation solutions are still emerging and evolving rapidly.

In November 2006, the Group launched sales of its NTET Tutorial Platform. NTET revenue of RMB20 million accounted for 26.3% of the Group's total net revenues for the six-month period ended September 30, 2007.

Net revenues to clients which individually exceeded 10% of the Group's net revenue are as follows:

	Six-month Period Ended September 30,			
	2006		2007	
	RMB	%	RMB	%
PRC Ministry of Labor	5,539,637	17.1%	6,455,167	8.5%
China Banking Association	—	0%	14,860,585	19.5%
Chengdu Shiguang Co., Ltd. (NTET distributor)	—	0%	8,205,128	10.8%

No other client accounted for 10% or more of the Group's total net revenues for the six-month periods ended September 30, 2006 and 2007.

Accounts receivable from clients which individually exceeded 10% of the Group's accounts receivable are as follow:

	March 31, 2007		September 30, 2007	
	RMB	%	RMB	%
Hefei Huaxing Co., Ltd. (NTET distributor)	—	0%	8,400,000	28.4%
Chengdu Shiguang Co., Ltd. (NTET distributor)	—	0%	6,000,000	20.3%

No other client accounted for 10% or more of the Group's accounts receivable as of March 31 or September 30, 2007.

As of March 31 and September 30, 2007, RMB38,320,167 and RMB38,282,203, respectively, in cash was held in major financial institutions located in the PRC, and cash of RMB6,640,823 and RMB14,138,071, respectively, was held in major financial institutions located in the Hong Kong Special Administration Region. Management believes that these major financial institutions are of high credit quality. Cash denominated in currencies other than RMB is subject to foreign currency risk due to the appreciation or depreciation of RMB under the current exchange rate regime in the PRC.

## ATA INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group does not have concentrations of available sources of labor, services, franchises or other rights that could, if suddenly eliminated, severely impact its operations.

**(2) RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"), which, among other things, requires applying a "more likely than not" threshold to the recognition and derecognizing of tax positions. The Group's adoption of FIN 48 as of April 1, 2007 did not have any effect on its financial position or results of operations. The Group has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of income tax expense in the consolidated statements of operations. No interest or penalties have been accrued at the date of adoption. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined. In the case of a related party transaction, the statute of limitation is 10 years. There is no statute of limitation in the case of tax evasion.

In September 2006, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 157, "*Fair Value Measurements*" ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about the fair value measurements. The provisions of SFAS No. 157 will be effective for the Group on April 1, 2008. Although the Group will continue to evaluate the impact of adopting SFAS No. 157 on the consolidated financial statements, management does not currently expect its adoption will have a material transition effect on the consolidated financial statements.

In November 2006, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 06-6, "*Debtor's Accounting for a Modification (or Exchange) of Convertible Debt Instruments*" ("EITF 06-6"), which applies to modifications and exchanges of debt instruments that (a) either add or eliminate an embedded conversion option or (b) affect the fair value of an existing embedded conversion option. The Group's adoption of EITF 06-6 as of April 1, 2007 did not have any effect on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159 "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS No. 159"), which permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The provisions of SFAS No. 159 will be effective for the Group on April 1, 2008. Management is currently evaluating whether to elect the fair value option as permitted under SFAS No. 159.

**(3) ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net is summarized as follows:

	March 31, 2007	September 30, 2007
	RMB	RMB
Accounts receivable	19,417,802	32,400,291
Less: Allowance for doubtful accounts	(2,440,151)	(2,788,388)
<b>Accounts receivable, net</b>	<b><u>16,977,651</u></b>	<b><u>29,611,903</u></b>



## ATA INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of March 31 and September 30, 2007, accounts receivable of RMB9,427,729 and RMB2,676,616 respectively, represented amounts that the Group had the right to bill according to the contract terms, primarily relating to degree major course programs, but related revenue was not recognized until earned.

The activity in the allowance for doubtful accounts for accounts receivable for the six-month periods ended September 30, 2006 and 2007 were as follows:

	Six-month Period Ended September 30,	
	2006	2007
	RMB	RMB
Beginning allowance for doubtful accounts	1,940,422	2,440,151
Additions charged to bad debt expense	44,984	467,997
Write-off of accounts receivable	—	(119,760)
<b>Ending allowance for doubtful accounts</b>	<b><u>1,985,406</u></b>	<b><u>2,788,388</u></b>

**(4) INVESTMENTS IN AFFILIATES**

The Group's investments in affiliated companies which are all non-listed PRC companies were as follows:

Name of Company	Form of Business Structure	Percentage of Equity Held		Principal Activities
		March 31, 2007	September 30, 2007	
		%	%	
Jiangsu ATA Software Co., Ltd. ("ATA Jiangsu")	Limited liability	—	—	Computer-based testing service
Xiamen Wendu Software Education Investment ("Wendu Education")	Limited liability	40	—	Investment in software related education industry

ATA Jiangsu had incurred substantial operating losses and as of March 31, 2003, the Group's carrying amount in that investment was reduced to zero. The Group suspended the application of the equity method of accounting since that time. As a result of the completion of ATA Jiangsu's liquidation on May 10, 2006, the Group recognized a gain of RMB1,509,228, including RMB29,141 cash collection and RMB1,480,087 forgiveness of a liability. In April 2007, the Group received liquidation proceeds of RMB988,133 in cash from ATA Jiangsu's major shareholder which was recognized as a gain upon receipt.

In April 2005, ATA Learning, with other unrelated investors, established Wendu Education. ATA Learning contributed cash in the amount of RMB4,000,000 in exchange for a 40% equity ownership interest. In June 2006, ATA Learning resolved to sell its equity interest of Wendu Education for RMB6,000,000 to an unrelated buyer. On September 22, 2006, a deposit of RMB2,000,000 was received but the sale of Wendu Education had not been consummated as of March 31, 2007. In April 2007, the remaining balance of RMB4,000,000 was collected. On August 26, 2007, upon the approval of the shareholders of Wendu Education the sale was consummated and ATA Learning recognized a gain of RMB 2,837,451 on the sale of Wendu Education.

## ATA INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Property and equipment, net consist of the following:

	March 31, 2007	September 30, 2007
	<u>RMB</u>	<u>RMB</u>
Computer equipment	9,345,563	9,641,050
Furniture, fixtures and office equipment	409,134	270,160
Software	993,501	993,501
Motor vehicles	992,931	694,211
Leasehold improvements	2,478,169	2,478,169
	14,219,298	14,077,091
Less: Accumulated depreciation and amortization	<u>(6,676,114)</u>	<u>(5,435,270)</u>
<b>Property and equipment, net</b>	<b><u>7,543,184</u></b>	<b><u>8,641,821</u></b>

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

Accrued expenses and other payables consist of the following:

	March 31, 2007	September 30, 2007
	<u>RMB</u>	<u>RMB</u>
Accrued payroll and welfare	2,786,524	2,274,816
Accrued fees for professional services	1,498,273	5,342,312
Accrued initial public offering costs	1,442,805	3,929,322
Business and other taxes payable	2,296,018	3,375,323
Value added tax payable	1,888,356	5,165,912
Income taxes payable	26,187	1,912,385
Deposits due to customers	—	3,123,184
Deposit received toward the sale of Wendu Education (see Note 4)	2,000,000	—
Other current liabilities	1,794,229	2,659,487
<b>Total accrued expenses and other payables</b>	<b><u>13,732,392</u></b>	<b><u>27,782,741</u></b>

## ATA INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

## (7) NET REVENUES

Components of net revenues for the six month periods ended September 30, 2007 and 2006 were as follows:

	Six-month Period Ended September 30,	
	2006	2007
	RMB	RMB
Testing services	10,622,263	29,471,779
Test based educational services	18,748,427	20,891,624
Test preparation solutions	5,000	21,632,092
Other revenue	2,992,738	4,252,934
<b>Total revenues, net</b>	<b><u>32,368,428</u></b>	<b><u>76,248,429</u></b>

## (8) INCOME TAXES

The income tax expense (benefit) recognized in the interim condensed consolidated statements of operations consists of the following:

	Six-month Period Ended September 30,	
	2006	2007
	RMB	RMB
Current income tax expense	—	1,898,741
Deferred income tax expense (benefit)	(683,128)	2,216,293
<b>Total income tax expense (benefit)</b>	<b><u>(683,128)</u></b>	<b><u>4,115,034</u></b>

The actual income tax expense (benefit) as reported in the consolidated statements of operations differs from the amounts computed by applying the PRC foreign enterprise income tax rate of 33% to pretax income (loss) as a result of the following:

	Six-month Period Ended September 30,	
	2006	2007
	RMB	RMB
Computed "expected" income tax expense (benefit)	(4,138,208)	4,172,915
Increase in valuation allowance	4,177	403,713
Tax holiday	182,622	230,941
Preferential tax rate	1,065,766	(3,981,866)
Foreign tax differential	2,108,912	3,006,903
Deductible software amortization	(165,000)	(165,000)
Non-deductible entertainment expenses	407,763	158,744
Non-deductible bad debt and inventory write-offs	14,845	160,193
Non-deductible value added tax late payment surcharge	—	76,730
Taxable inter-company licensing fees	334,041	377,845
Non-taxable equity income in affiliates	(498,046)	(326,084)
<b>Actual income tax expense (benefit)</b>	<b><u>(683,128)</u></b>	<b><u>4,115,034</u></b>

## ATA INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The PRC statutory rate has been used since substantially all of the Group's operations, taxable income and income tax expense are generated in the PRC.

The Group's tax holiday increased the actual income tax benefit by RMB182,622 and decreased the actual income tax expense by RMB230,941 for the six-month periods ended September 30, 2006 and 2007, respectively. Basic (loss) earnings per common share effect of the tax holiday for the six-month periods ended September 30, 2006 and 2007 were RMB0.009 and RMB0.011, respectively. Diluted (loss) earnings per common share effect of tax holiday for the six-month periods ended September 30, 2006 and 2007 were RMB0.009 and RMB0.006, respectively.

**(9) SHARE BASED COMPENSATION**

A summary of all the options activities for the six-month period ended September 30, 2007 is as follows:

	<u>Number of Stock Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding as of March 31, 2007	4,052,863	2.134		
Granted	—	—		
Exercised	—	—		
Forfeited or expired	(5,000)	3.600		
Outstanding as of September 30, 2007	<u>4,047,863</u>	<u>2.133</u>	<u>7.2 years</u>	<u>USD29,903,227</u>
Exercisable as of September 30, 2007	<u>2,964,080</u>	<u>1.751</u>	<u>6.8 years</u>	<u>USD23,248,124</u>

The Group recorded share-based compensation expense of RMB1,239,532 and RMB1,050,790 for the six-month periods ended September 30, 2006 and 2007, respectively.

As of September 30, 2007, there was RMB1,588,815 of total unrecognized compensation cost related to non-vested share options. This cost is expected to be recognized over the next 4 years.

**(10) CONVERTIBLE PREFERRED SHARES**

On July 2, 2007, the Company and the holders of the Series A Shares agreed to adjust the conversion price of Series A Shares to common shares from USD2.263 to USD1.3829 per share according to the mechanism stipulated in the Company's memorandum and articles of association. Accordingly, on a fully-converted basis, Series A Shares will be converted to 10,846,771 common shares under the adjusted conversion price.

The company has also determined that the non-detachable conversion feature had no intrinsic value on July 2, 2007, when the contingency was resolved, as the commitment-date fair value (USD0.89) of the underlying common shares of the Company issuable upon conversion is lower than the adjusted conversion price of Series A Shares. Therefore, no beneficial conversion feature was recognized. The fair value of the underlying common shares of the Company was determined by Sallmanns (Far East) Limited, an independent third-party valuation firm, using an income approach. Since the Company's capital structure comprised a warrant, common shares and Convertible Preferred Shares, the equity value was allocated between each class of equity securities using the option pricing method. The option pricing

**ATA INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

method treats the warrant, common shares and Convertible Preferred Shares as call options on the equity value with exercise prices based on the warrant's exercise price and liquidation preferences of the Convertible Preferred Shares.

On July 2, 2007, the Company also resolved that the number of common shares, which were reserved for the purpose of issuing upon conversion of the Series A and Series A-1 shares, were adjusted to 11,730,554.

**(11) COMMITMENTS AND CONTINGENCIES*****Lease Commitments***

The Group entered into non-cancelable operating leases, primarily for office buildings, for initial terms of one to five years, without renewal options.

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

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2007 are:

	<b>Minimum Lease Amount</b>
	<b>RMB</b>
From October 1, 2007 to March 31, 2008	2,288,513
Year ended March 31, 2009	4,899,390
Year ended March 31, 2010	4,070,714
Year ended March 31, 2011	1,664,742
	<u>12,923,359</u>

Rental expense for operating leases (except those with lease terms of a month or less that were not renewed) for the six-month periods ended September 30, 2006 and 2007 was RMB2,113,427 and RMB2,427,703, respectively.

***Other Commitments***

In August 2007, the Company entered into a cooperation agreement with Tsinghua University to develop IT degree major course programs to be taught at post-secondary educational institutions incorporating course content developed by Tsinghua University. Under the agreement, which expires on October 14, 2010, the Company is obligated to pay Tsinghua University at least RMB15.0 million in license fees by the end of the contract, of which RMB5.0 million was payable prior to October 31, 2007. The license fees are paid to Tsinghua University quarterly based on actual usage.

## ATA INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

	Six-month Period Ended September 30,	
	2006	2007
	RMB	RMB
Net income (loss) available (applicable) to common shareholders	(11,856,896)	8,530,165
Denominator for basic and diluted earnings (loss) per common share:		
Weighted average common shares outstanding	<u>19,343,054</u>	<u>21,900,132</u>
Plus weighted average issuable option shares	—	3,118,875
Plus weighted average issuable warrants	—	516,576
Plus convertible preferred shares outstanding	—	<u>11,730,554</u>
Weighted average common shares outstanding used in computing diluted earnings (loss) per common share	<u>19,343,054</u>	<u>37,266,137</u>
Basic earnings (loss) per common share	<u>(0.61)</u>	<u>0.39</u>
Diluted earnings (loss) per common share	<u>(0.61)</u>	<u>0.23</u>

The Company's dilutive common equivalent shares for the six-month periods ended September 30, 2006 and 2007 consist of 920,119 and 3,118,875 common shares issuable upon exercise of outstanding share options, respectively (using the treasury stock method); 2,294,549 and 516,576 common shares issuable upon exercise of warrants, respectively (using the treasury stock method), and 11,593,077 and 11,730,554 common shares issuable upon the conversion of the convertible preferred shares, respectively (using the as-converted method). These potentially dilutive securities were not included in the calculation of dilutive loss per share for the period ended September 30, 2006 due to their anti-dilutive effect.

**(13) SUBSEQUENT EVENTS****(a) Grant of stock options**

On October 1, 2007, the Group's board of directors approved the grant of 391,800 options to purchase common shares at an exercise price of USD3.60 per common share. 25% of the options granted vest on January 1, 2008 and the remaining 75% vest ratably at the end of each month over the following 30-month period. The contractual term of these options is 10 years. Based on the preliminary results of Sallmanns (Far East) Limited, an independent third party valuation firm using the binomial option pricing model, the grant-date fair value of the 391,800 options is estimated at approximately RMB18,500,000. The assumptions used in determining the fair value of the options were as follows: expected volatility of 43%, expected dividend rate of 0%, expected life of 1.8 years, risk-free interest rate of 4.56% per annum, and estimated fair market value of underlying shares of USD9.52 (the mid-point of the estimated range of the initial public offering price of this offering after a discount of 9.16% to account for inherent business risk and lack of marketability).

**ATA INC. AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(b) Acquisition of equity interests in Beijing Jindixin Software Technology Company Limited (“Beijing Jindixin”) and JDX Holdings Limited**

On October 15, 2007, the Company entered into definitive agreements to purchase the entire equity interests of Beijing Jindixin and JDX Holdings Limited for total cash consideration of RMB10 million. Beijing Jindixin is a PRC incorporated entity primarily engaged in the development and marketing of software for computer-based tests. JDX Holdings Limited is a British Virgin Islands incorporated entity established by the equity holders of Beijing Jindixin to receive permanent and exclusive licensing rights for the use of technology owned by Beijing Jindixin. On October 15, 2007, a deposit of RMB2 million in the aggregate was made to the sellers with the remainder of the consideration due upon closing. The transaction is expected to close within 90 days of the date of the agreements, subject to satisfaction of customary closing conditions. In conjunction with the acquisition, the Company also issued to certain of the sellers warrants for the purchase of an aggregate of 126,803 shares of the Company’s common stock at a strike price of USD5.25 per share, which warrants are exercisable upon the closing of the transaction and expire on January 13, 2008. On the date of issuance, the estimated intrinsic value of the warrants granted to certain of the sellers approximated RMB4.1 million (USD0.5 million) based on the estimated fair market value of underlying shares of USD9.52 (the mid-point of the estimated range of the initial public offering price of this offering after a discount of 9.16% to account for inherent business risk and lack of marketability). On January 5, 2008, the expiration date of the warrants was extended to April 30, 2008.

The acquisition of the equity interest of Beijing Jindixin and JDX Holdings Limited will be accounted for in accordance with SFAS No. 141, “*Business Combinations*.” The results of Beijing Jindixin and JDX Holdings Limited will be included in the consolidated operating results and financial position of the Group for the periods subsequent to the consummation of the acquisition.

This acquisition is being made to expand the Group’s business by allowing the Group to market test delivery services to test sponsors that are using test and content management software developed by Beijing Jindixin, expand its scope of services to test sponsors that wish to outsource their test management systems, and leverage the relationship developed by the management of Beijing Jindixin with test sponsors.

**(14) PRO FORMA EARNINGS PER COMMON SHARE**

If the Company completes an initial public offering under the terms presently anticipated, all of the Convertible Preferred Shares will be converted to 11,730,554 common shares immediately prior to the completion of the offering. The pro forma basic earnings per share data gives full effect as if the conversion of the Preferred Shares had taken place on April 1, 2007 to reflect the pro forma presentation for the six-month period ended September 30, 2007.

Securities that could potentially dilute pro forma basic earnings per share include share options and warrants.




## ATA INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The pro forma basic and diluted earnings per common share has been calculated as follows:

	Six-month Period Ended September 30, 2007
	RMB
Net income applicable to common shareholders as reported	8,530,165
Denominator for pro forma basic earnings per common share:	
Weighted average common shares outstanding	21,900,132
Conversion of Preferred Shares	11,730,554
Computing pro forma basic earnings per share	<u>33,630,686</u>
Denominator for pro forma diluted earnings per common share:	
Plus weighted average issuable option shares	3,118,875
Plus weighted average issuable warrants	516,576
Computing pro forma diluted earnings per common share	<u>37,266,137</u>
Pro forma basic earnings per common share	<u>0.25</u>
Pro forma diluted earnings per common share	<u>0.23</u>





# ATA

**The Leading Provider of Computer-based  
Testing Services in China...**

**Testing Services**

**Test-based  
Educational Services**

**Test Preparation  
Solutions**



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**4,874,012 American Depositary Shares**

**ATA**

**ATA Inc.**

**Representing 9,748,024 Common shares**

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**PROSPECTUS**

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**Merrill Lynch & Co.**

**Piper Jaffray**

**Susquehanna Financial Group, LLLP**

**, 2008**

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**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 6. Indemnification of Directors and Officers**

Cayman Islands law does not limit the extent to which a company's articles of association may provide indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Island courts to be contrary to the public interest, such as providing indemnification against civil fraud or the consequences of committing a crime. The registrant's articles of association provide that each officer or director of the registrant shall be indemnified out of the assets of the registrant against any liability incurred by him or her in defending any proceedings, whether civil or criminal, in which judgment is given in his or her favor, or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his or her part, or in which he or she is acquitted or in connection with any application in which relief is granted to him or her by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the registrant.

**Item 7. Recent Sales of Unregistered Securities**

During the past three years, we have issued and sold the securities listed below without registering the securities under the Securities Act. None of these transactions involved any underwriters' underwriting discounts or any public offering. We believe that each of the following issuances was exempt from registration under the Securities Act in reliance on Regulation S or Rule 701 under the Securities Act or pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering.

<u>Purchaser</u>	<u>Date of Issuance</u>	<u>Number of Securities Originally Issued</u>	<u>Number of Common Shares as Converted<sup>(1)</sup></u>	<u>Consideration</u>
Kevin Xiaofeng Ma	March 31, 2005	8,246,808 common shares	N/A	None (result of share split, share dividend, and compensation for prior services)
Walter Lin Wang	March 31, 2005	4,086,936 common shares	N/A	None (result of share split and share dividend)
Ming Guo	March 31, 2005	3,601,840 common shares	N/A	None (result of share split and share dividend)
Zhenxiu Zheng.	March 31, 2005	485,096 common shares	N/A	None (result of share split and share dividend)
SB Asia Investment Fund II, L.P.	March 31, 2005	6,186,478 Series A Convertible Preferred Shares	6,186,478	\$2.2630 per share
	May 1, 2006	883,783 Series A-1 Convertible Preferred Shares	883,783	\$3.3945 per share
Winning King Ltd.	March 31, 2005	441,897 Series A Convertible Preferred Shares	441,897	\$2.2630 per share
Lijun Mai	June 26, 2006	5,479,452 common shares	N/A	RMB19,000,000 (\$2.54 million)
Certain Directors, Officers, and Employees.	April 12, 2005	Options to purchase a total of 1,312,600 common shares	N/A	N/A
	December 16, 2005	Options to purchase a total of 951,000 common shares	N/A	N/A
	May 8, 2006	Options to purchase a total of 330,400 common shares	N/A	N/A
	December 27, 2006	Options to purchase a total of 250,000 common shares	N/A	N/A
	October 1, 2007	Options to purchase a total of 391,800 common shares	N/A	N/A
Yong Chai	October 15, 2007	Warrants to purchase 45,655 common shares	N/A	Selling of Beijing Jindixin Software Technology Company Limited and JDx Holdings Limited to us
Xia Li	October 15, 2007	Warrants to purchase 20,287 common shares	N/A	Selling of Beijing Jindixin Software Technology Company Limited and JDx Holdings Limited to us

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<u>Purchaser</u>	<u>Date of Issuance</u>	<u>Number of Securities Originally Issued</u>	<u>Number of Common Shares as Converted<sup>(1)</sup></u>	<u>Consideration</u>
Zhenghong Chen	October 15, 2007	Warrants to purchase 20,287 common shares	N/A	Selling of Beijing Jindixin Software Technology Company Limited and JDJ Holdings Limited to us
Yansheng Jiang	October 15, 2007	Warrants to purchase 20,287 common shares	N/A	Selling of Beijing Jindixin Software Technology Company Limited and JDJ Holdings Limited to us
Lin Wu	October 15, 2007	Warrants to purchase 20,287 common shares	N/A	Selling of Beijing Jindixin Software Technology Company Limited and JDJ Holdings Limited to us

(1) Based on a one-to-one conversion ratio.

### **Item 8. Exhibits and Financial Statement Schedules**

#### (a) Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
1.1	— Form of Underwriting Agreement.**
3.1	— Second Amended and Restated Memorandum and Articles of Association of the Registrant.*
3.2	— Third Amended and Restated Memorandum and Articles of Association of the Registrant.*
4.1	— Form of Common Share Certificate.*
4.2	— Second Amended and Restated Memorandum and Articles of Association of the Registrant (Filed as Exhibit 3.1 hereto).*
4.3	— Third Amended and Restated Memorandum and Articles of Association of the Registrant (Filed as Exhibit 3.2 hereto).*
4.4	— Form of Deposit Agreement between the Registrant and Citibank, N.A., as depository. <sup>(1)</sup>
4.5	— Form of American depository receipt evidencing American depository shares (included in Exhibit 4.4).*
4.6	— Shareholders Agreement, dated November 10, 2006, among the Registrant and its shareholders party thereto.*
4.7	— Right of First Refusal and Co-Sale Agreement, dated November 10, 2006, among the Registrant and its shareholders party thereto.*
5.1	— Opinion of Conyers, Dill & Pearman Cayman regarding the issue of common shares being registered.
5.2	— Opinion of Patterson Belknap Webb & Tyler LLP, counsel for the depository, as to the legality of the American depository shares and American depository receipts. <sup>(1)</sup>
8.1	— Opinion of O'Melveny & Myers LLP regarding certain U.S. tax matters.
8.2	— Opinion of Conyers, Dill & Pearman regarding certain Cayman Islands tax matters.
10.1	— 2005 Share Incentive Plan of ATA Testing Authority (Holdings) Limited.*
10.2	— 2008 Employee Share Incentive Plan of the Registrant and form of ISO Option Agreement and NQSO Option Agreement.*
10.3	— Form of Indemnification Agreement between the Registrant and its directors.*
10.4	— Master Service Agreement between Microsoft (China) Co., Ltd. and ATA Testing Authority, (Beijing) Limited, dated May 16, 2003 and the Addendum to Master Service Agreement, dated June 8, 2006.†
10.5	— Technical Support Agreement between ATA Online (Beijing) Education Technology Limited and ATA Learning (Beijing) Inc., dated October 27, 2006.*
10.6	— Strategic Consulting Service Agreement between ATA Online (Beijing) Education Technology Limited and ATA Learning (Beijing) Inc., dated October 27, 2006.*

## Table of Contents

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.7	— Loan Agreement between ATA Testing Authority (Holdings) Limited and Xiaofeng Ma, dated October 27, 2006.*
10.8	— Loan Agreement between ATA Testing Authority (Holdings) Limited and Lin Wang, dated October 27, 2006, which was amended on February 12, 2007.*
10.9	— Call Option and Cooperation Agreement among ATA Testing Authority (Holdings) Limited, Xiaofeng Ma, Lin Wang, Jianguo Wang and ATA Online (Beijing) Education Technology Limited, dated October 27, 2006.*
10.10	— Framework Agreement for Option Right Exercise among ATA Testing Authority (Holdings) Limited, Lin Wang, Jianguo Wang, ATA Online (Beijing) Education Technology Limited and ATA Learning (Beijing) Inc., dated February 12, 2007.*
10.11	— Option Exercise Notice between ATA Testing Authority (Holdings) Limited and Jianguo Wang, dated February 12, 2007.*
10.12	— Call Option and Cooperation Agreement among ATA Testing Authority (Holdings) Limited, Xiaofeng Ma, Lin Wang and ATA Online (Beijing) Education Technology Limited, dated February 12, 2007.*
10.13	— Equity Pledge Agreement among Xiaofeng Ma, Lin Wang and ATA Learning (Beijing) Inc., dated February 12, 2007.*
21.1	— Subsidiaries of Registrant.*
23.1	— Consent of KPMG.
23.2	— Consent of Conyers, Dill and Pearman, Cayman (included in Exhibit 8.2).*
23.3	— Consent of Jincheng & Tongda Law Firm.*
23.4	— Consent of IDC.
23.5	— Consent of Sallmanns (Far East) Limited.
23.6	— Consent of Hope Ni.
23.7	— Consent of Alec Tsui.
24.1	— Powers of Attorney.*
99.1	— Code of Conduct.*

\* Previously filed.

\*\* To be filed by amendment.

† Confidential treatment has been requested for portions of this exhibit.

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

(b) Financial Statement Schedules.

All supplement schedules are omitted because of the absence of conditions under which they are required or because the information is shown in the financial statements or notes thereto.

### **Item 9. Undertakings**

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant under the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action,



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suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) For the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(4) For the purpose of determining any liability under the Securities Act of 1933, that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.



**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Hong Kong on January 16, 2008.

ATA Inc.

By: /s/ Carl Yeung

Name: Carl Yeung

Title: Director and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed by the following persons in the capacities indicated in Hong Kong on January 16, 2008.

<u>Signature</u>	<u>Capacity</u>
<u>*</u> Kevin Xiaofeng Ma	Director and Chief Executive Officer (principal executive officer)
<u>*</u> Walter Lin Wang	Director and President
<u>/s/ Carl Yeung</u> Carl Yeung	Director and Chief Financial Officer (principal financial and accounting officer)
<u>*</u> Andrew Yan	Director
<u>*</u> Lynda Lau	Director

\* By: /s/ Carl Yeung  
Carl Yeung  
Attorney-in-Fact

**SIGNATURE OF AUTHORIZED REPRESENTATIVE IN THE UNITED STATES**

Pursuant to the Securities Act of 1933, as amended, the undersigned, the duly authorized representative in the United States of ATA Inc. has signed this registration statement or amendment thereto in Newark, Delaware, on January 16, 2008.

Authorized Representative

By: /s/ Donald J. Puglisi

Name: Donald J. Puglisi

Title: Managing Director, Puglisi & Associates

II-6

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**EXHIBIT INDEX**

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24.1	— Powers of Attorney.*
99.1	— Code of Conduct.*

\* Previously filed.

\*\* To be filed by amendment.

† Confidential treatment has been requested for portions of this exhibit.

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

16 January 2008

<Table>

<S> ATA Inc. 8th Floor, East Building, 6 Jian Guo Men Nei Gong Yuan Xi Jie, Beijing, China 100005 </Table>	<C> DIRECT LINE: (852) 2842 9531 E-MAIL: Anna.Chong@conyersdillandpearman.com OUR REF: AC/870816/#258451 YOUR REF:	<C> DIRECT LINE: (852) 2842 9531 E-MAIL: Anna.Chong@conyersdillandpearman.com OUR REF: AC/870816/#258451 YOUR REF:
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Dear Sirs,

ATA INC. (THE "COMPANY")

We have acted as special Cayman legal counsel to the Company in connection with the public offering of American Depositary Shares each representing two ordinary shares issued by the Company (the "SHARES") as described in the prospectus contained in the Company's registration statement on Form F-1, as amended to date (the "REGISTRATION STATEMENT") filed by the Company under the United States Securities Act 1933 (the "SECURITIES ACT") with the United States Securities and Exchange Commission (the "COMMISSION").

For the purposes of giving this opinion, we have examined a Certificate of Good Standing issued by the Registrar of Companies in relation to the Company on 8 January 2008 (the "Certificate Date") and a copy of the Registration Statement. We have also reviewed the memorandum of association and the articles of association of the Company, each adopted by the shareholders of the Company on 7 January 2008 to be effective conditionally and immediately upon commencement of the trading of the Company's American Depositary Shares representing the Shares on The NASDAQ Global Market, copies of written resolutions of the members of the Company dated 7 January 2008 and written resolutions of the board of directors of the Company dated 7 January 2008 and such other documents and made such enquiries as to questions of law as we have deemed necessary in order to render the opinion set forth below.

We have assumed (a) the genuineness and authenticity of all signatures and the conformity to the originals of all copies (whether or not certified) examined by us and the authenticity and completeness of the originals from which such copies were taken and (b) the accuracy and completeness of all factual representations made in the Registration Statement and other documents reviewed by us.

We have made no investigation of and express no opinion in relation to the laws of any jurisdiction other than the Cayman Islands. This opinion is to be governed by and construed in accordance with the laws of Cayman Islands and is limited to and is given on the basis of the current law and practice in the Cayman Islands. This opinion is issued solely for the purposes of the filing of the Registration Statement and the offering of the Shares by the Company.

On the basis of and subject to the foregoing, we are of the opinion that:

1. As at the Certificate Date, the Company is duly incorporated and existing under the laws of the Cayman Islands in good standing (meaning solely that it has not failed to make any

Conyers Dill & Pearman

ATA Inc.  
16 January 2008

filing with any Cayman Islands government authority or to pay any Cayman Islands government fee which would make it liable to be struck off by the Registrar of Companies and thereby cease to exist under the laws of the Cayman Islands).

2. When issued and paid for as contemplated by the Registration Statement, the Shares will be validly issued, fully paid and non-assessable (which term means when used herein that no further sums are required to be paid by the holders thereof in connection with the issue of such Shares).

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the references to our firm under the captions "Enforceability of Civil Liabilities" and "Taxation" in the prospectus forming a part of the Registration Statement. In giving this consent, we do not hereby admit that we are experts within the meaning of Section 11 of the Securities Act or that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the Rules and Regulations of the Commission promulgated thereunder.

Yours faithfully,

/s/CONYERS DILL & PEARMAN

[O'MELVENY & MYERS LLP LETTERHEAD]

January 16, 2008

ATA INC.

- - - - -

8th Floor, Tower E  
6 Gongyuan West Street  
Jian Guo Men Nei  
Beijing 100005, China

RE: AMERICAN DEPOSITARY SHARES (THE "ADSs"), EACH REPRESENTING TWO  
COMMON SHARES OF ATA INC. (THE "COMPANY")

Ladies and Gentlemen:

We have acted as counsel to the Company, a Cayman Islands company, in connection with the filing of a Registration Statement on Form F-1 (the "F-1 Registration Statement") with the Securities and Exchange Commission on January 8, 2008 (File No. 333-148512), for registration under the Securities Act of 1933, as amended (the "Act"), of ADSs in an initial public offering. You have requested our opinion concerning statements in the "Taxation -- United States Federal Income Taxation" section of the F-1 Registration Statement.

In our capacity as counsel to the Company, we have examined originals or copies of those corporate and other documents we considered appropriate, including the F-1 Registration Statement and the forms of agreements attached as exhibits thereto and such other records, documents, certificates or other instruments as in our judgment were necessary or appropriate to enable us to render the opinion expressed below. We have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies. We have also assumed that the transactions described in the F-1 Registration Statement and the forms of agreements attached as exhibits thereto will be performed in the manner described therein. We have further relied on representations provided by the Company to us regarding the nature and structure of the Company's business. We have not made an independent investigation of documents submitted or facts represented to us.

On the basis of the foregoing and our consideration of those questions of law we considered relevant, and subject to the limitations, qualifications, and assumptions set forth in this opinion, we confirm that the discussion in the "Taxation -- United States Federal Income Taxation" section of the F-1 Registration Statement is an accurate summary of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of the ADSs under currently applicable law, and, to the extent that it constitutes matters of U.S. federal income tax law or legal conclusions relating to the U.S. federal income tax laws of the United States and subject to the qualifications therein, represents our opinion.

Our opinion is based on the existing provisions of the U.S. Internal Revenue Code of

1986, as amended, and regulations thereunder (both final and proposed) and other applicable authorities in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect. We express no opinion with respect to other U.S. federal laws, the laws of any state, the laws of any foreign country or any other jurisdiction or as to any matters of municipal law or the laws of any other local agencies within any state. No opinion is expressed as to any matter not discussed herein. Our opinion is rendered to the Company as of the date of this letter and we undertake no obligation to update it subsequent to the date of this letter. Any changes or differences in the facts from those disclosed in the F-1 Registration Statement will affect our opinion.



The above opinion is provided to the Company for the Company's use in connection with the transactions that are the subject of the "Taxation -- United States Federal Income Taxation" section of the F-1 Registration Statement.

We consent to the Company's use of this opinion as an Exhibit to the F-1 Registration Statement and to the Company's reference to our name in the "Taxation -- United States Federal Income Taxation" section of the F-1 Registration Statement. In giving such consent, we do not thereby concede that we are within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Securities and Exchange Commission thereunder.

Respectfully submitted,

/s/ O'MELVENY & MYERS LLP

16 January 2008

<Table>

<S>	<C>	<C>
ATA Inc.	DIRECT LINE:	2842 9531
8th Floor, East Building,	E-MAIL:	Anna.Chong@conyersdillandpearman.com
6 Jian Guo Men Nei Gong Yuan Xi Jie,	OUR REF:	AC/al/257507
Beijing, China 100005	YOUR REF:	

Dear Sirs,

ATA INC. (THE "COMPANY")

We have acted as special Cayman Islands legal counsel to the Company in connection with a public offering of certain ordinary shares in the Company in the form of American Depositary Shares (the "Shares") as described in the prospectus (the "Prospectus") contained in the Company's registration statement on Form F-1 to be filed with the United States Securities and Exchange Commission (the "Registration Statement", which term does not include any exhibits thereto).

For the purposes of giving this opinion, we have examined and relied upon copies of the following documents:

- (i) the Registration Statement to be filed by the Company under the United States Securities Act of 1933 with the United States Securities and Exchange Commission on 8 January 2008; and
- (ii) a draft of the Prospectus contained in the Registration Statement.

We have also reviewed and relied upon (1) the memorandum of association and the articles of association of the Company, (2) a copy of an undertaking from the Governor-in-Council of the Cayman Islands under the Tax Concessions Law (1999 Revision) dated 3 October, 2006, and (3) such other documents and made such enquiries as to questions of law as we have deemed necessary in order to render the opinion set forth below.

We have assumed (i) the genuineness and authenticity of all signatures, stamps and seals and the conformity to the originals of all copies of documents (whether or not certified) examined by us and the authenticity and completeness of the originals from which such copies were taken; (ii) the accuracy and completeness of all factual representations made in the Prospectus and Registration Statement and other documents reviewed by us, (iii) that there is no provision of the law of any jurisdiction, other than the Cayman Islands, which would have any implication in

Conyers Dill & Pearman

ATA Inc.  
16 January 2008  
Page 2

relation to the opinions expressed herein; (iv) the validity and binding effect under the laws of the United States of America of the Registration Statement and the Prospectus and that the Registration Statement will be duly filed with or declared effective by the United States Securities and Exchange Commission; and (v) that the Prospectus, when published, will be in substantially the same form as that examined by us for purposes of this opinion.

We have made no investigation of and express no opinion in relation to the laws of any jurisdiction other than the Cayman Islands. This opinion is to be governed by and construed in accordance with the laws of the Cayman Islands and is limited to and is given on the basis of the current law and practice in the Cayman Islands.

On the basis of and subject to the foregoing, we are of the opinion that the statements relating to certain Cayman Islands tax matters set forth under the caption "Management's discussion and analysis of financial condition and results of operations - Taxation" and "Taxation - Cayman Islands taxation" in the

Prospectus are true and accurate based on current law and practice at the date of this letter and that such statements constitute our opinion.

We hereby consent to the filing with the United States Securities and Exchange Commission of this letter as an exhibit to the Registration Statement of which the Prospectus is a part, and the reference to us under the captions "Taxation", "Legal Matters" and "Enforceability of Civil Liabilities" in the Prospectus contained in the Registration Statement. In giving the foregoing consent, we do not admit that we are within the category of persons whose consent is required under section 7 of the United States Securities Act of 1933.

Yours faithfully,

/s/CONYERS DILL & PEARMAN

MASTER SERVICES AGREEMENT

This MASTER SERVICES AGREEMENT ("Agreement") is entered into and effective as of May 16, 2003, by and between (CHINESE CHARACTERS) MICROSOFT (CHINA) CO., LTD. ("MCCL"), a Chinese corporation having its principal place of business at 6F, Beijing Sigma Center, No. 49, Zhichun Road, Haidian District, Beijing 100080, P.R.C., and (CHINESE CHARACTERS) ATA TESTING AUTHORITY, BEIJING CO., LTD. ("ATA"), a Chinese corporation located Bei Hai Wan Tai Building Room 707, No.6 North Chao Yang Men Street, Beijing P.R.China 100027

RECITALS

A. MCCL has obtained proper authorization with regard to certain courseware and exams, and has been authorized to use such courseware and exams to educate and test end users' skill levels in various areas through its Microsoft Official Curriculum and Microsoft Certified Professional (MCP) Program.

B. ATA has been appointed by the Ministry of Education ("MOE") to assist in implementation of MOE Polytechnic Program (FYB011449), including curriculum planning and distribution, school recruitment and marketing, exam delivery and related services at test centers in China.

C. ATA wishes to be licensed by MCCL for Microsoft courseware and exams and support the MOE Polytechnic Program, which is the degree program registered by the Polytechnics Division of the Ministry of Education and the students eligible under this Agreement (including the relevant Exhibits attached hereto) shall be the fulltime students of the MOE Polytechnic Program.

D. MCCL wishes to engage ATA to deliver Microsoft's curriculum and tests to students enrolled in the MOE Polytechnic Program through ATA's network of secure testing centers.

In consideration of the covenants and conditions set forth below, the adequacy of which is agreed to and hereby acknowledged, the parties agree as follows:

AGREEMENT

1. ATA Obligations.

1.1 Duties. ATA agrees to perform its duties described in the Statement of Work ("Statement of Work"), which is attached hereto as Exhibit A, and incorporated herein by reference. ATA understands that it shall deliver the courseware and exam in accordance with this Agreement and the Exhibits attached hereto only to full-time students of MOE Polytechnic Program.

1.2 Financial Information. Within ten (10) days after ATA learns that it has become or will become insolvent, ATA shall submit financial statements to MCCL in sufficient detail to allow MCCL to determine whether ATA shall be capable of continuing to perform its obligations hereunder. The financial statements shall include, but shall not be limited to, balance sheets and related statements of income and retained earnings and statements of changes in financial condition. To the extent those statements are audited, the audit report of the certified public accountant performing the audit shall also be submitted to MCCL. The financial information provided hereunder shall be deemed to be Confidential Information pursuant to the Section 5 herein.

1.3 Reports. ATA shall timely provide MCCL with the reports specified in the Statement of Work and the general financial reports identified in the Statement of Work (collectively referred to as "Report"), and all other information requested pursuant to Section 17 of the Statement of Work. All Reports shall be complete and accurate. Each Report, whether in electronic or paper format, shall meet the

standard Report Requirements identified for the Report in the Statement of Work and shall be delivered within the time specified in the Statement of Work. ATA shall use its best effort to correct any errors in a Report within three Business Days following MCCL's notice specifying the item in respect of which an error may have occurred. ATA shall deliver each Report, and all supporting documentation therefore, by the time and on the Business Day specified in the Statement of Work. A "Business Day" means each day on which ATA or MCCL is open for business.

1.4 Training Agreements. ATA agrees that it shall enter into a training and testing agreement with each of the schools that enroll in the MOE Polytechnic Program in the form and substance of Exhibit B attached hereto (the "Training Agreement"), and shall perform its obligations in accordance with the Training Agreement.

1.5 Printing and Distribution. ATA agrees that is shall enter into printing and distribution agreements with publisher(s) necessary to print and distribute courseware in accordance with Exhibit A attached hereto, and shall perform its obligations in accordance with those agreements.

1.6 Licensing Fees. Pursuant to the Training Agreement, ATA will charge and collect fees from enrolled schools for each enrolled student of the MOE Polytechnic Program and shall pay MCCL licensing fees as defined in the

Statement of Work for each fulltime student that enrolls in this MOE Polytechnic Program ("Licensing Fees")

## 2. MCCL Obligations.

2.1 All Exams and Courseware. MCCL will license to ATA the right to deliver the MCP exam files and courseware in accordance with this Agreement and the Exhibits attached hereto, and make available to ATA specifications of all materials as listed in the Statement of Work, as updated by MCCL from time to time in its sole discretion, to allow ATA to perform the Services.

2.2 MCCL Certification Database. MCCL will maintain and operate a candidate certification database and provide specifications in accordance with which ATA shall perform candidate registration and deliver test results to MCCL in accordance with the Statement of Work.

2.3 Program Promotion. MCCL will use commercially reasonable efforts to promote the program and ATA as an exam delivery service provider, using methods for creating awareness selected by MCCL in its sole discretion.

2.4 Notice of Change. MCCL will notify ATA not less than sixty (60) days in advance of authorizing an additional exam delivery partner (including test delivery service) for the MOE Polytechnic Program.

## 3. Remedies.

If one party does not perform its material obligations in accordance with this Agreement ("Responsible Party"), the other party, at its sole discretion, may elect one or more of the following remedies (i) require that the Responsible Party provide a written plan within fifteen (15) days of notice, describing the cause of failure to perform, and a timetable and strategy for compliance in the future, (ii) require that the Responsible Party implement its plan for compliance in the future as approved by the other party, and/or (iii) terminate the Agreement and its Exhibits in accordance with Section 10.4 hereinafter. Any remedies under this Section 3 shall be in addition to all other remedies available under this Agreement.

In addition to the foregoing, if ATA performs its obligations in a manner which constitutes a failure to meet or exceed Key Performance Indicators ("KPI", as defined in Appendix A of the Statement of Work), excluding the KPI for Abandonment Rate, or ATA fails to timely provide complete reporting as required in the Statement of Work, MCCL may charge ATA a penalty of five percent (5%) of the total Licensing Fees due for the first three months after 30 days written notice from MCCL to ATA describing the failure and

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that this remedy is to be applied and increasing two percent (2%) per month each month that ATA continues to fail to meet the performance described in MCCL's notice herein, up to a maximum of ten percent (25%).

## 4. Intellectual Property Rights.

4.1 Ownership of Exams. MCCL and its suppliers retain all right, title and interest in the courseware and exams provided by MCCL to ATA to enable it to perform its obligations.

4.2 Trademarks. ATA may refer to itself as a "Microsoft Certified Professional Exam Provider" in text, and use the "Microsoft Certified Professional Exam Provider" (the "Logo") according to the Microsoft guidelines attached hereto as Appendix K of the Statement of Work or as may be provided by MCCL from time to time. ATA shall correct any specified misuses of Microsoft's trademarks or the Logo. This Agreement does not grant ATA any right, title, interest, or license in or to any of Microsoft's names, word marks, logos, logotypes, trade dress, designs, or other trademarks. ATA is permitted, however, to make descriptive references to Microsoft's non-stylized word marks (but may not use Microsoft's logos other than the Logo authorized herein, or any logotypes, trade dress, or designs) in product packaging, documentation, advertising, and marketing materials, including worldwide web pages, according to the Trademark Guidelines attached hereto as Appendix K of the Statement of Work. ATA shall correct any specified misuses of Microsoft's trademarks. Nothing herein shall restrict Microsoft's legal or equitable rights to protect its Microsoft trademarks against infringement, dilution, or other misuse. Notwithstanding the above, in the event that the Logo is discontinued and are not created, ATA will not be permitted to use any of Microsoft's trademark and/or Logo.

4.3 ATA Trademarks and Logos. Subject to ATA's review and prior written approval, MCCL may use ATA trademarks and logos in connection with the MOE Polytechnic Program. This Agreement does not grant MCCL any right, title, interest, or license in or to any of ATA's names, word marks, logos, logotypes, trade dress, designs, or other trademarks. MCCL shall correct any specified misuses of ATA's trademarks. Nothing herein shall restrict ATA's legal or equitable rights to protect its ATA trademarks against infringement, dilution, or other misuse. Notwithstanding the above, in the event that any of ATA's logos are discontinued and are not created, MCCL will not be permitted to use any of ATA's trademark and/or logos.

4.4 Exam Delivery System. ATA is the owner of the exam delivery system, including exam driver and engine software, processes and procedures and other elements utilized in the performance of its obligations under this Agreement and

the Exhibits attached hereto ("Exam Delivery System"). MCCL is expected to provide feedback to ATA to enable ATA to perform ATA's obligations, which ATA may include in the Exam Delivery System, and MCCL will own such feedback. Nothing in this Section 4.4 shall alter the provisions of Section 5 below.

## 5. Confidentiality.

5.1 The parties each expressly undertake to retain in confidence all Confidential Information disclosed by one party to the other hereunder pursuant to the terms and conditions set forth in that certain Non-Disclosure Agreement which is attached hereto as Appendix J of the Statement of Work and incorporated herein by this reference. The specific terms of this Agreement (including all Exhibits attached hereto) shall be deemed to be Confidential Information pursuant to the NDA.

## 6. Warranties.

6.1 Mutual Warranties. Each party hereby represents and warrants as follows:

(a) Corporate Power. Such party is duly organized and validly existing under the laws of the state of its incorporation and has full corporate power and authority to enter into this Agreement and to carry out the provisions hereof.

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(b) Due Authorization. Such party is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder.

(c) Binding Agreement. This Agreement is a legal and valid obligation binding upon it and enforceable with its terms. The execution, delivery and performance of this Agreement by such party does not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

6.2 ATA Warranties. ATA represents and warrants the following to MCCL:

(a) ATA has been authorized by the Ministry of Education to launch this MOE Polytechnic Program in China.

(b) The obligations to be performed by ATA to MCCL under this Agreement and the Exhibits attached hereto do not infringe any copyright, trade secret, trademark, or other proprietary right held by any third party;

(c) The obligations to be performed by ATA shall be performed in compliance with all applicable laws and regulations of any relevant jurisdiction;

(d) The obligations to be performed by ATA shall be performed by ATA in a professional manner and shall be of a high grade, nature, and quality and in conformity with the description set forth in the Statement of Work; and

(e) ATA's employees and agents shall at all times, while on MCCL property or while performing its obligations, comply with all applicable local and State laws, including specifically all laws prohibiting harassment of any kind in the workplace. ATA assumes all responsibility for providing to its employees, agents and subcontractors any training that may be required to insure compliance with such laws.

6.3 MCCL Warranties. MCCL represents and warrants the following to ATA:

(a) MCCL has all rights necessary to perform its obligations under this Agreement;

(b) MCCL's employees shall at all times, while on ATA's property, comply with all applicable local and State laws, including specifically all laws prohibiting harassment of any kind in the workplace. MCCL assumes all responsibility for providing its employees training that may be required to insure compliance with such laws.

EXCEPT AS EXPRESSLY SET FORTH IN THIS SECTION 6, NEITHER PARTY MAKES ANY WARRANTIES WITH RESPECT TO ITS PRODUCTS, SERVICES OR PERFORMANCE HEREUNDER, EXPRESS, STATUTORY, OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

## 7 Limitation of Liability.

NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY CONSEQUENTIAL, INCIDENTAL, PUNITIVE, OR SPECIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOST PROFITS) INCURRED BY THAT PARTY AS A RESULT OF ANY BREACH OF THIS AGREEMENT NOR SHALL THE AGGREGATE LIABILITY OF EITHER PARTY IN ANY EVENT EXCEED TEN MILLION DOLLARS (\$10,000,000.00).

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## 8. Indemnity.

8.1 Indemnity by ATA. ATA agrees to indemnify and hold MCCL and its successors, officers, directors and employees harmless from any and all third party claims, including: actions, causes of action, claims, demands, costs, liabilities, expenses and damages (including reasonable attorney's fees and expenses incurred in connection therewith or with successfully establishing the right to indemnification hereunder) to the extent arising out of:

(a) The breach of any ATA warranty set forth in Section 6 above or default by ATA in the performance of any obligation to be fulfilled by ATA under this Agreement, or any claim that if true would constitute a breach of ATA's warranties set forth in Section 6 above; and

(b) ATA's performance of its obligations.

8.2 Indemnity by MCCL. MCCL agrees to indemnify and hold ATA, and its successors, officers, directors and employees harmless from any and all third party claims, including: actions, causes of action, claims, demands, costs, liabilities, expenses and damages (including reasonable attorney's fees and expenses incurred in connection therewith or with successfully establishing the right to indemnification hereunder) to the extent arising out of:

(a) The breach of any MCCL warranty set forth in Section 6 above or default by MCCL in the performance of any obligation to be fulfilled by MCCL under this Agreement, or any claim that if true would constitute a breach of MCCL's warranties set forth in Section 6 above;

(b) MCCL's performance of its obligations under this Agreement;

(c) Provided, however, that this indemnity expressly excludes any claim set forth in this Section 8.2 above or any loss, cost, damage or expense, to the extent arising out of the negligent or willful acts or omissions of: ATA, its employees, agents, representatives, or any third party outside the control or direction of ATA. For purposes of this Section 8.2(c), all testing centers, ATA's employees, subcontractors and independent contractors are deemed to be under the direction or control of ATA.

(d) Regardless of the basis of indemnification, under no circumstance shall MCCL's obligation to indemnify exceed the Licensing Fees received by MCCL for the trailing 12 months in which the basis for indemnification arises out or is connected to.

8.3 Notice of Claim. If any action shall be brought against a party (the "Indemnified Party") in respect to which indemnity may be sought pursuant to the provisions of Sections 1.4, 1.5 and 8, the Indemnified Party shall promptly notify the other party (the "Indemnifying Party") in writing, specifying the nature of the action and the total monetary amount sought or other such relief as is sought therein. The Indemnifying Party may, at its option, assume the defense of the action, in which event the Indemnified Party will cooperate fully in such defense and may participate in such defense with counsel of its own choice, provided that the Indemnified Party will be responsible for all expenses relating to such separate counsel. If the Indemnifying Party assumes the defense of the action, its obligation will be limited to paying the attorneys' fees, costs and expenses associated with such defense (except as otherwise expressly provided herein) and holding harmless the Indemnified Party from and against any judgment paid on account of such action or monetary settlement the Indemnifying Party has made (with the Indemnified Party's approval, not to be unreasonably withheld) or approved. No settlement may be made by either party without the other party's prior approval, such approval not to be unreasonably withheld.

ATA AND MCCL EXPRESSLY AGREE THAT THIS SECTION ENTITLED INDEMNIFICATION HAS BEEN READ AND REVIEWED AND HAS BEEN THE SUBJECT OF NEGOTIATION BETWEEN THE PARTIES, AND THAT EACH AGREES TO BE BOUND BY THE TERMS THEREOF.

## 9. Insurance

9.1 Coverage. Prior to the commencement of this Agreement and throughout the entire term thereof and to the extent available in China, ATA shall maintain the following insurance. Such insurance shall be in a form and with insurers reasonably acceptable to MCCL, and shall comply with the following minimum requirements:

(a) Comprehensive General Liability. ATA shall obtain and maintain a policy of "general", "public", or "commercial" liability insurance with policy limits of not less than \$1,000,000 each occurrence for bodily injury and \$1,000,000 each occurrence for damage to property, or, alternatively, \$1,000,000 combined single limit each occurrence for bodily injury and property damage combined. The policy shall be the "occurrence" form, including coverage for premises and operations, contractual liability (including specifically liability assumed herein), broad form property damage, and products and completed operations. ATA shall name MCCL, its subsidiaries, and their respective directors, officers and employees as additional insureds under such policy to the extent of contractual liability assumed by ATA under this Agreement. The coverage afforded to the additional insureds shall be primary and non-contributory to insurance maintained by MCCL, and shall contain a severability of interests provision in favor of the additional insureds.

(b) Automobile Liability. If licensed vehicles will be used in connection with the performance of the work hereunder, and at all times when such vehicles are operated on the premises of MCCL, ATA shall maintain



automobile liability insurance covering all owned, rented, and non-owned vehicles operated by ATA with policy limits of not less than \$1,000,000 combined single limit for bodily injury and property damage combined, or, if limits are obtained on a per person and per accident basis, not less than \$1,000,000 per person and per accident for bodily injury, and \$500,000 per accident for property damage.

(c) Workers' Compensation. ATA shall at all times and to the fullest extent comply with all applicable workers' compensation, occupational disease, and occupational health and safety laws, statutes, and regulations. Compliance and coverage shall extend to all employees of ATA suffering bodily injury (including death) by accident or disease, which arises out of or in connection with the performance of this Agreement. Satisfaction of these requirements shall include, but shall not be limited to:

(i) full participation in any required governmental occupational injury and/or disease insurance program, to the extent participation in such program is mandatory in any jurisdiction, and

(ii) purchase of workers' compensation and occupational disease insurance providing benefits to employees in full compliance with all applicable laws, statutes, and regulations (but only to the extent such coverage is not provided under a mandatory government program as in Section 9.1(c) (i) above), and/or

(iii) maintenance of a legally permitted and governmentally approved program of self insurance for workers' compensation and occupational disease.

If ATA fails to effect and maintain a program of compliance with applicable workers' compensation and occupational disease laws, statutes, and regulations, and MCCL incurs fines or is required by law to provide benefits or to obtain coverage for such employees, ATA shall indemnify MCCL for such fines, payment of benefits to employees or ATA or their heirs or legal representatives, and/or the cost of effecting coverage on behalf of such employees. Any amount owed to MCCL by ATA pursuant to this indemnity may be deducted from any payments owed by MCCL to ATA for performance of this Agreement.

(d) Employer's Liability. ATA, in addition to complying with the provisions of section (c) above, shall maintain coverage for employer's liability with a policy limit of not less than \$1,000,000 per accident. In states where commercial insurance of workers' compensation is not permitted,

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this requirement may be fulfilled through addition of the "Employers Stop Gap Liability" endorsement to the comprehensive general liability policy required in (a) above.

(e) Errors & Omissions Liability Insurance. Policy limits of not less than One Million Dollars (\$1,000,000.00) each claim. Throughout the term of this Agreement, the Errors & Omissions Liability Insurance retroactive coverage date will be no later than the Effective Date of this Agreement ("Effective Date" is defined in Section 10.1 below). Upon expiration or termination of this Agreement, ATA will either (i) continue to maintain such coverage for a period of at least one (1) year following the termination of this Agreement; (ii) maintain for at least one (1) year full replacement coverage that also complies with the requirements of this Section 9.1(e); or (iii) maintain, upon terms consistent with all other pertinent terms of the policy then in force, an extended reporting period ending not less than one year following termination of this Agreement ("Extended Reporting Period"), and providing that claims first made and reported to the insurance company within said Extended Reporting Period will be deemed to have been made during the policy period.

#### 9.2 General Requirements Applicable to All Above Coverages.

(a) All deductibles and premiums associated with the coverages described in the above Section 9.1 shall be the responsibility of ATA.

(b) If, in the reasonable opinion of MCCL, the amount of liability coverage is not adequate by reason of inflationary pressures or experience or the nature and content of ATA's activities, ATA shall increase the amount of insurance coverage as reasonably required by MCCL.

(c) The use of umbrella or excess liability insurance to achieve the above required liability limits shall be permitted by MCCL, provided that such umbrella or excess insurance results in the same type and amounts of coverage as required under the required individual policies identified above.

(d) It is the intent of the parties that the above insurance requirements will assure adequate resources for victim compensation and will serve to minimize MCCL's involvement and liability arising out of performance of this Agreement by ATA. Where any subcontractor is retained by ATA in the performance of this Agreement, ATA shall ensure that ATA's Errors and Omissions Liability Insurance and Comprehensive General Liability coverage hereunder shall respond to a claim of liability for the negligence, errors, acts or omissions (as applicable under the terms of the pertinent policy) of its subcontractors to the extent that such coverage is commercially available.

9.3 Certificates of Insurance. Prior to the commencement of this Agreement, ATA (and any subcontractor thereof where ATA is not assuming its insurance

obligations) shall provide to MCCL certificates of insurance evidencing full compliance with the insurance requirements contained herein. Such certificates shall be kept current throughout the entire term of this Agreement, and shall provide for at least thirty (30) days' advance notice to MCCL if the coverage is to be canceled or materially altered so as not to comply with the foregoing requirements.

Where such insurance is to waive rights of subrogation or include MCCL as an additional insured the certificate shall expressly reflect in writing the insurers' acceptance of such requirements.

Failure by ATA to furnish certificates of insurance or failure by MCCL to request same shall not constitute a waiver by MCCL of the insurance requirements set forth herein. In the event of liability or expense incurred by MCCL as a result of such failure by ATA, ATA hereby agrees to indemnify MCCL for all liability and expense (including reasonable attorney's fees and expenses associated with establishing the right to indemnity) incurred by MCCL as a result of such failure by ATA.

#### 10. Effectiveness, Term and Termination.

10.1 Effectiveness. This Agreement shall not become effective unless and until (i) MCCL and ATA have signed this Agreement and stamp their corporate seals, respectively; (ii) MCCL and ATA

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has signed the Statement of Work and the Appendices attached thereto and stamp their corporate seals thereto; and (iii) ATA has signed with ATA Service Providers (defined in the Statement of Work) agreements that truly and accurately reflect ATA's obligations under this and the Statement of Work ("Effective Date"). ATA hereby agrees that it shall submit to MCCL an original copy of the agreements to be executed by ATA and ATA Service Providers, and MCCL reserves the right to audit such agreements.

10.2 Term. This Agreement shall commence as of the Effective Date. The Agreement shall terminate upon the earlier of (i) June 30, 2004 or (ii) as terminated under this Section 10. Notwithstanding anything contained herein, this Agreement shall be automatically extended for an additional period of one (1) year period unless either party provides written notice to the other party of its intent to terminate the Agreement without cause pursuant to Section 10.5. Termination of this Agreement will not affect (i) Licensing Fees for training and/or exams furnished prior to termination or as mutually agreed after termination; or (ii) MCCL's and ATA's compliance to the terms and conditions of this Agreement in connection with ATA's obligations actually furnished. On or before April 1, 2004 or upon any earlier termination notice, MCCL may notify ATA of its intent to negotiate a further agreement between ATA and MCCL.

10.3 Default. This Agreement shall terminate at the sole discretion of the non-defaulting party, upon a default under Sections 3 or 10.3(a) (2) below. MCCL may terminate this Agreement upon a default under Section 10.3(a) (1).

(a) Each of the following is a Default or an event of default:

(1) The acquisition of a substantial part or all of ATA's assets by a third-party or its merger with another company;

(2) The occurrence of any of the following (each an "Insolvency Event of Default"): (i) any party admits in writing its inability to pay its debts generally or makes a general assignment for the benefit of its creditors; (ii) a proceeding is instituted, voluntarily or otherwise, by or against any party seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of it or its debt, which is not dismissed within thirty (30) days; (iii) any affirmative act of insolvency by any party or the filing by or against any party of any petition or action under any bankruptcy, reorganization, insolvency arrangement, liquidation, dissolution or moratorium law, or any other law or laws for the relief of, or relating to, debtors; (iv) a proceeding is initiated against any party seeking to appoint a receiver, trustee or other similar official for it or for any substantial part of its property; (v) a party ceases to pay its debts as they become due; (vi) any party becomes Insolvent, as defined in Section 10.3(c) herein; or (vii) the subjectation of a material part of any party's property to any levy, seizure, assignment or sale for or by any creditor, third party or governmental agency.

(b) Effect of Termination and Survival

(1) Compensation. Notwithstanding termination of this Agreement, each party shall return any Confidential Information of the other party within ten (10) days from the date of such termination. In addition, ATA shall return all data, solely as it is derived from MCCL facilities and ATA's obligations performed under this Agreement, to MCCL within ten (10) days from the date of such termination in a standard computerized management maintenance system format.

(2) Transition. In circumstances as expressly provided by this Agreement, or in the event of any complete or partial cessation of ATA's obligations under this Agreement or any of ATA's obligations provided under this Agreement (any or all of the foregoing referred to as a "COS"), in each instance without regard to cause or reasons for such COS, including expiration or termination of this Agreement, but expressly provided that MCCL is not in breach

or default of any of its confidentiality obligations hereunder, ATA and MCCL agree to have an orderly transfer of ATA's obligations to another performer as MCCL may designate over a period not to exceed thirty (30) calendar days following other applicable notice periods and at charges equal to 100% of the charges then applicable hereunder. In particular, but subject to the foregoing, ATA agrees that:

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(A) The customer database and records of customer transactions (including applications, orders and record of fulfillment) and other pertinent customer or exam records, including electronic records, but excluding ATA works, in ATA's possession or reasonable control and necessary to answer MCCL customer inquiries and to provide support previously provided by the ATA, shall be transferred expeditiously and without charge, except out-of-pocket costs and for any programming required, to MCCL or its new designated service performer;

(B) Promptly after it is apparent to either party that there will be a COS, the parties shall meet to schedule and organize the shift of ATA's obligations in order that it shall be seamless to the fulltime students under the MOE Polytechnic Program and occur without undue expense or inconvenience to either party; MCCL shall pay ATA for additional services provided by ATA;

(C) Provided MCCL is not in breach or default of its confidentiality obligations hereunder, ATA acknowledges its duties under this subsection are independent of any other disputes or claims it may have against MCCL, and that it shall not utilize its practical relationship and control over prior performance of its obligations or records to achieve any advantage or leverage in relation to such other disputes or claims; and

(D) The duties of the parties under this transition process shall be specifically enforceable by court order because there would be irreparable damage to MCCL, in the case of any interruption of ATA's obligations.

(c) Insolvent. For purposes of this Agreement, Insolvent shall mean a financial condition such as to make the sum of a party's debts greater than all of the party's assets, at fair valuation; or, when a party has incurred debts beyond that party's ability to pay such debts as they mature; or, when a party is engaged in a business or transaction for which the party has unreasonably small capital.

(d) Effect of Default. In the event of a default, the parties shall have all rights and remedies provided in this Agreement or otherwise available under law as limited by this Agreement.

10.4 Termination With Cause. Either party may terminate the Agreement immediately upon written notice to the other party specifying the breach and intent to terminate for breach of Sections 5, or 11.2. MCCL may terminate the Agreement upon written notice to ATA for breach of any payment obligation in the event ATA fails to cure such breach to MCCL's satisfaction within fifteen (15) days of written notice of such breach specifying the breach and intent to terminate. Otherwise, either party may terminate upon written notice in the event the other party fails to cure any breach of this Agreement within thirty (30) days of written notice specifying the breach and intent to terminate of such breach.

10.5 Termination Without Cause. Either party may terminate the Agreement without cause or the occurrence of a default upon ninety (90) days' written notice to the other party.

10.6 Survival. In the event of termination of this Agreement for any reason, any unsatisfied payment obligations of ATA and Sections 1.2, 4, 5, 6, 7, 8, 9, 10.3(b), 11, 12.3 and 12.5 shall survive. With respect to tax matters, the terms and conditions of Section 12.4 shall survive termination until the expiration of any applicable statute of limitations or extension thereof.

10.7 Maintenance of Records and Reports Upon Termination. If this Agreement is terminated for any reason, ATA will store all records and reports for at least one hundred and eighty (180) days after the termination date, and make such records and reports available to MCCL at no additional cost.

## 11. Audit Rights.

11.1 (a) ATA shall keep all usual and proper records related to its obligations described in this Agreement and the Statement of Work. MCCL reserves the right, upon five (5) business days notice, to audit ATA's records and consult with ATA's accountants for the purpose of verifying ATA's

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compliance with the terms of this Agreement and invoices and/or statements issued by ATA, during the term of this Agreement and for a period of two (2) years thereafter, provided that any such audits shall be conducted during normal business hours in such a manner as to not unreasonably interfere with the normal business operations of ATA.

(b) Any such audit shall be paid for by MCCL unless material discrepancies are disclosed. "Material" shall mean a discrepancy of two percent (2%) or higher between amounts billed to MCCL and ATA records. If any material discrepancy is disclosed ATA agrees to pay MCCL for the reasonable costs associated with the audit. ATA agrees to promptly correct any deficiencies detected in the audit and shall promptly refund any overpayments disclosed by such an audit, or MCCL may, at its election, set off any such overpayment against any money subsequently due by MCCL to ATA. In no event shall audits be made more frequently than twice annually unless the immediately preceding audit disclosed a material discrepancy. MCCL recognizes and agrees that information contained therein is confidential and will use it only in furtherance of disposition of the audit in question.

11.2 Confidentiality. Notwithstanding the foregoing, ATA may edit its books and records to protect confidential information of ATA that is unrelated to the subject of a MCCL audit, or to protect confidential information of the customers of ATA.

12. Miscellaneous.

12.1 Independent Contractors. ATA is an independent contractor for MCCL, and nothing in this Agreement shall be construed as creating an employer-employee relationship, a partnership, or a joint venture between the parties.

12.2 Assignment. ATA may not assign this Agreement, or any rights or obligations hereunder, whether by operation of contract, law or otherwise, except with the express written consent of MCCL, and any attempted assignment by ATA in violation of this Section shall be void. For purposes of this Agreement, an "assignment" by ATA under this Section shall be deemed to include, without limitation, each of the following: (a) a change in beneficial ownership of ATA of greater than twenty percent (20%) (whether in a single transaction or series of transactions) if ATA is a partnership, trust, limited liability company or other like entity; (b) a merger of ATA with another party, whether or not ATA is the surviving entity; (c) the acquisition of more than twenty percent (20%) of any class of ATA's voting stock (or any class of non-voting security convertible into voting stock) by another party (whether in a single transaction or series of transactions); and (d) the sale or other transfer of more than fifty percent (50%) of ATA's assets (whether in a single transaction or series of transactions). In the event of such assignment or attempted assignment by ATA, MCCL shall have the right to immediately terminate this Agreement.

This Agreement, and any rights or obligations hereunder, may not be assigned or transferred by ATA without MCCL's prior written approval. For purposes of this Agreement, a merger, consolidation, or other corporate reorganization or a transfer or sale of 51% of the voting shares of ATA's stock, or of all or substantially all of its assets shall be deemed to be an assignment. This is a contract for personal services and MCCL relies upon the qualifications, reputation and expertise of ATA to perform all obligations hereunder. In particular, MCCL relies on ATA's history of performance over thirty (30) years of operation.

12.3. Notices.

All notices and requests in connection with this Agreement shall be deemed given as of the day they are received either by messenger, delivery service, or in the United States of America mails, postage prepaid, certified or registered, return receipt requested, and addressed as follows:

NOTICES TO ATA:

-----

ATA  
Bei Hai Wan Tai Building Room 707  
No.6 North Chao Yang Men Street,  
Beijing P.R.China 100027  
Attn.: Mr. Wang Lin

Telephone: 86-10-85282060  
Fax: 86-10-85282050  
Copy to: General Counsel  
ATA

Bei Hai Wan Tai Building Room 707  
No.6 North Chao Yang Men Street,  
Beijing P.R.China 100027

Telephone: 86-10-85282060  
Fax: 86-10-85282060

NOTICES TO MCCL:

-----

Microsoft (China) Co., Ltd.  
ADDRESS  
6F, Beijing Sigma Center  
No. 49, Zhichun Road, Haidian District  
Beijing 100080, P.R.C  
Attn: ATA Account Manager

Copy to: Law & Corporate Affairs  
Telephone: (86 10) 6261-7711  
Fax: (86 10) 6255-5402

Copy to: Jay Henningsen  
Group Product Manager  
Microsoft Corporation  
1 Microsoft Way  
Redmond, WA 98052  
Telephone: (425) 706-4441  
Fax: (425) 706-4329

or to such other address as the party to receive the notice or request so designates by written notice to the other.

12.4 Taxes.

(a) The parties acknowledge that ATA may launch the MOE Polytechnic Programs in Hong Kong S.A.R., Macao S.A.R. and Taiwan, with prior written approval from MCCL. ATA shall be responsible for any income, franchise, excise,

sales, use, gross receipts, value added, goods and services, property or similar tax imposed by any foreign, federal, state, provincial, municipal, local and other taxing authority which is required to be paid by ATA as a result of the transactions contemplated under this agreement. MCCL is not liable for any taxes, duties, levies, fees, excises or tariffs or any penalties, interest or any additions thereon, incurred in connection with or related to the sale of goods and services under this Agreement. Such taxes shall be the financial responsibility of ATA, including penalties, interest and other additions thereon, and ATA agrees to indemnify, defend and hold MCCL harmless from any taxes or claims, causes of action, costs (including without limitation, reasonable attorneys' fees), penalties, interest charges and other liabilities of any nature whatsoever related to such taxes.

(b) All amounts to be earned by ATA herein are inclusive of all taxes imposed by all foreign, federal, state, provincial, municipal, local and other taxing authorities, including income, franchise, excise, sales, use, gross receipts, value added, goods and services, property or similar tax, now or hereafter imposed on ATA. Such taxes shall be the responsibility of ATA and may not be passed on to MCCL.

12.5 Governing Law and Dispute Resolution. This Agreement shall be governed by the laws of the People's Republic of China (for the purpose of this Section 12.5, the laws of the People's Republic of China does not include Hong Kong S.A.R., Macao S.A.R. and Taiwan). The parties hereby agree to settle disputes arising out of this Agreement through friendly negotiations. If any dispute cannot be settled through friendly negotiations within 60 days after either party sends out a notice for negotiation, then either party may submit the dispute to arbitration at the China International Economic and Trade Arbitration Commission in Beijing (CIETAC) in accordance with its rules in effect from time to time. The arbitration award shall be final and binding upon both parties. In any action or suit to enforce any right or remedy under this Agreement or to interpret any provision of this Agreement, the prevailing party shall be entitled to recover its costs, including reasonable attorneys' fees. This choice of jurisdiction does not prevent either party from seeking injunctive relief with respect to a violation of intellectual property rights or confidentiality obligations in any appropriate jurisdiction.

12.6 Subcontracting. ATA shall not have the right to subcontract any portion of its obligations under this Agreement and the Statement of Work to third parties who are significant competitors in relation to MCCL's core packaged software development and sales business without the

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prior written approval of MCCL. MCCL shall have the right to subcontract any of its obligations under this Agreement without the prior written approval of ATA. If ATA is unsure whether an entity is a significant competitor, ATA agrees that it will contact MCCL for its determination. This Section 12.6 shall not limit ATA's ability to enter into Agreements with prospective testing centers.

12.7 Construction. If for any reason a court of competent jurisdiction finds any provision of this Agreement, or portion thereof, to be unenforceable, that provision of the Agreement shall be enforced to the maximum extent permissible so as to effect the intent of the parties, and the remainder of this Agreement shall continue in full force and effect. Failure by either party to enforce any provision of this Agreement shall not be deemed a waiver of future enforcement of that or any other provision. This Agreement has been negotiated by the parties and their respective counsel and shall be interpreted fairly in accordance with its terms and without any strict construction in favor of or against either party.

12.8 Entire Agreement. This Agreement does not constitute an offer by MCCL and it shall not be effective until the conditions specified in Section 10.1 hereinabove have been satisfied. This Agreement, all Exhibits hereto, and the Non-Disclosure Agreement shall constitute the entire agreement between the ATA and MCCL with respect to ATA's obligations and all other subject matter hereof and merge all prior and contemporaneous communications. It shall not be modified except by a written agreement dated subsequent to the Effective Date and signed on behalf of ATA and MCCL by their respective duly authorized representatives.

12.9 Force Majeure. Neither party shall be responsible nor be deemed to be in default under this Agreement for any delay or failure in performance of any of its obligations to be performed hereunder resulting from causes beyond its reasonable control and without its negligence (collectively referred to herein as "Force Majeure"). Such causes shall include acts of God, strikes, lockouts, other labor disturbances, riots, insurrections, civil disturbances, sabotage, embargoes, blockades, acts of war, power failures, or communication line failures.

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IN WITNESS WHEREOF, the parties have entered into this Agreement as of the Effective Date written above.

(CHINESE CHARACTERS)  
MICROSOFT (CHINA) CO., LTD.

(CHINESE CHARACTERS)  
ATA TESTING AUTHORITY, BEIJING CO., LTD

Signature	Signature
-----	-----
Name (Print)	Name (Print)
-----	-----
Title	Title
-----	-----
Date	Date

Exhibit A

Exhibit A

Statement of Work

Exhibit A

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Exhibit A

This STATEMENT OF WORK ("SOW") is entered into on May 16, 2003, by and between (CHINESE CHARACTERS) ATA Testing Authority, Beijing Co., Ltd. ("ATA") and (CHINESE CHARACTERS) Microsoft (China) Co., Ltd. ("MCCL"), as Exhibit A to the Master Service Agreement executed by and between MCCL and ATA on May 16, 2003 (THE "MASTER SERVICE AGREEMENT"), and shall be effective as of the Effective Date as provided in the Master Service Agreement.

The purpose of this SOW is to further define the rights and obligations of ATA and MCCL under the Ministry of Education ("MOE") Polytechnic Program (FYB011449) in accordance with the principles as set forth in the Master Service Agreement.

Unless otherwise defined, all the defined terms under this SOW shall have the same meaning as defined in the Master Service Agreement.

1.0 SCOPE OF THE MOE POLYTECHNIC PROGRAM

MCCL has been properly authorized and developed an education program based on Microsoft Official Curriculum, the Microsoft Certified Professional (MCP) Program and other Microsoft materials. MCCL will license these programs to ATA in accordance with the Master Service Agreement and this SOW, and ATA agrees to perform its obligations in accordance with the Master Service Agreement and the Exhibits thereto.

In general, ATA agrees to perform the following obligations in accordance with the Master Service Agreement and this SOW:

- Develop and maintain Candidate (defined in Section 3.0 hereinafter) registration and record management
- Manage printing and distributing of printed Courseware Materials (defined in Section 2.0 hereinafter)
- Register Candidates and provide appointment notification services for associated exams
- Deliver exams in a secure, proctored environment
- Delivering exam results to Candidates, including beta exam rescores
- Collect Candidate data and remit to MCCL
- Collect exam results and remit to MCCL
- Provide program information and support to Candidates



- Provide exam certificates, MCP welcome kits and course completion certifications to Candidates who complete courses and pass MCP exams
- Provide reporting to MCCL
- Payment and remittance of Licensing Fees to MCCL
- Recruit Customers (defined in Section 2.1 hereinafter)
- Develop and execute program marketing materials and Candidate recruitment services
- Ensure the quality of its performance of the above obligations

Specifically, ATA shall perform each of the obligations as set forth in this SOW, and each of the above obligations is deemed as "material" under Section 3 of the Master Service Agreement.

Regardless whether the services will be performed by ATA itself or ATA will hire any service providers to help to perform ATA's obligations in strict accordance with the Master Service Agreement and this SOW ("ATA Service Providers"), ATA shall be the party who is responsible for the performance of such obligations to MCCL and be liable to MCCL for the failure of the performance.

Unless otherwise specifically provided for in this SOW or in the Master Service Agreement, for all of the obligations that ATA shall perform under this SOW, MCCL is not obliged to make any payment to ATA.

## 2.0 SCOPE OF THE MANAGEMENT OF PRINTING AND DISTRIBUTING PRINTED COURSEWARE MATERIALS

ATA shall manage the printing and distribution of the courseware materials, including, without limitation to, printing of books, documents and components, CDs and DVDs replication, and kitting and fulfillment services in accordance with the Master Service Agreement and this SOW (such books, documents and components, CDs and DVDs, kitting, and other materials to be designated by MCCL from time to time are hereby collectively referred to as "COURSEWARE MATERIALS").

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## Exhibit A

ATA hereby represents and warrants that it has been authorized by the State law and/or regulation to replicate CD and DVD, or ATA will find a service provider to replicate such CD and DVD.

ATA will hire ATA Service Providers to (i) perform the printing work of Courseware Materials, (ii) manage and operate a warehouse to control the stock for the Courseware Materials that MCCL licenses ATA to print and distribute in accordance with the Master Service Agreement and this SOW, and (iii) to deliver such Courseware Materials to the Customers. ATA will negotiate a market competitive price with ATA Service Providers. MCCL shall have the right to review the negotiated price and refuse or accept the negotiated price. ATA will renew any negotiations if necessary.

## 2.1 SERVICE LEVEL REQUIREMENTS

ATA shall contract with ATA Service Providers and meet the following service level requirements for printed Courseware Materials:

- Print run turnaround from print ready file availability to availability for Customer delivery within 15 business days. ("CUSTOMER" shall mean the Schools enrolled in the MOE Polytechnic Programs and sign the Training Agreement with ATA in the form and substance of Exhibit B to the Master Service Agreement)
- Print overages exceeding 1% of the quantity ordered shall not be accepted, and ATA shall be fully responsible for such overage.
- Only paper contained in the will be charged.
- Customer order fill rate - 99% within 72 hours.
- Delivery time to Customer - 10 business days.
- Published Customer service phone number
- Issue resolution within 48 hours (2 business days).
- Data feed - delivered Monday (Beijing time) for preceding week.
- Data errors resolved and resent within 24 hours.

## 2.2 MANAGEMENT SERVICES

To support ATA's efforts, MCCL will provide the following services to ATA regarding ATA's management of printing and distribution of Courseware Materials in support of the MOE Polytechnic Program. ATA shall communicate

the required actions to ATA Service Providers to efficiently implement the production of Courseware Materials and delivery to Customers.

- Manufacturing specifications. MCCL shall provide to ATA a manufacturing specification, which may change from time to time or by title. This specification will include requirements for trim size, paper type, cover stock, color specifications, and cartoning. ATA shall urge ATA Service Providers to fulfill their obligations in accordance with the practices and procedures that are equivalent to or otherwise in accordance with the best industry practice and standards.
- Print run quantity management. This involves specification by MCCL of the quantity of first run and reprint printings. ATA shall communicate the quantities provided by MCCL to ATA Service Providers to enable a maximum fifteen (15) business day turnaround from the time that print ready files are available to the time that printed Courseware Materials are available for shipment from the central warehouse.
- Inventory management. Inventory management shall consist of maintaining inventory levels to meet shipment demands, ordering destruction of obsolescent or over-produced Courseware Materials, managing instructions for Courseware Materials' recalls or reworks as appropriate, and title status designation as available for sale, on hold, out of stock and others as appropriate. MCCL shall provide to ATA instructions concerning inventory management. ATA shall communicate all instructions from MCCL to ATA Service Providers to ensure proper inventory maintenance. MCCL agrees to adjust royalties due for obsolete Courseware Materials produced under the direction of MCCL, except for

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#### Exhibit A

Courseware Materials with errors or omissions not caused by MCCL. Should any of these inventory management instructions not be properly communicated and executed by ATA Service Providers, ATA will bear full costs associated with disposal of obsolescent or over-produced Courseware Materials. Any damage to the Courseware Materials incurred while being stored at ATA Service Providers' facility due to negligence or improper storage will be at the expense of ATA or ATA Service Providers rather than MCCL. ATA will provide MCCL with full reporting of all inventory activities in accordance with Appendix L attached hereto, ATA Revenue Reconciliation Reports.

- Distribution management. ATA and ATA Service Providers shall manage and control the distribution network needed to deliver the Courseware Materials as required in the Master Service Agreement and this SOW. MCCL shall provide consulting services to ATA regarding distribution policies and procedures. Such policies would include order fill rates, delivery time metrics, customer service handling, call center metrics, and the like.

ATA understands that the Courseware Materials are specifically for the MOE Polytechnic Program and shall be distributed to Candidates only. Accordingly, ATA hereby commits that it shall obey such obligations and shall urge and supervise ATA Service Providers and Customers to obey such obligations as well.

#### 2.3 SUB-CONTRACTORS COSTS

ATA shall be solely responsible for the fees of ATA Service Providers and nothing in this SOW shall authorize ATA to pledge the credit of MCCL or to incur any commitment, liability or obligation upon MCCL.

#### 3.0 SET-UP AND MAINTENANCE OF CALL CENTERS

ATA shall, at its own cost, provide all full-time students taking MCP classes (and/or other classes to be designated by MCCL from time to time) at Customers (such students are referred to as "CANDIDATES") with toll-free telephone access (where available and not cost prohibitive) to a Microsoft Regional Education Service Center ("RESC") for either registration or inquiry purposes.

ATA may change the telephone/fax numbers with sixty (60) days written notice to MCCL. ATA shall provide a forwarding number to Customers and Candidates via (1) recorded message on the old number, lasting a minimum of six (6) months from its termination; and (2) proactive notification on the ATA Web site. In the event that local telephone service infrastructure cannot support these requirements, ATA shall notify MCCL within fourteen (14) days of this discovery.

All calls shall be answered with: "Microsoft Certified Professional Program".

#### 3.1 BASIC ACTIVITIES

ATA is responsible to fulfill its obligation to support Customers and Candidates. ATA shall provide all necessary services to adequately fulfill Candidates' needs as they relate to registration, training, testing and issuing certificates. Specifically, these obligations shall include but are

not limited to the following:

- ATA shall receive incoming calls for registrations or inquiry.
- ATA shall provide online registration services.
- ATA shall provide registration services no less than from 7AM to 7PM (Beijing time) Monday through Friday. ATA shall notify MCCL at least thirty (30) days in advance of any planned RESC closing due to holidays or any other reasons.
- ATA shall make outbound calls as required to fulfill ATA's obligations. Outbound calls to Customers shall not be used for direct marketing purposes.

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- ATA shall receive and process incoming faxes as required to fulfill ATA's obligations.
- ATA shall send outbound faxes as required to fulfill ATA's obligations.
- The Fax Server shall have capability as required to fulfill ATA's obligations.
- ATA shall appoint sufficient number of Customer Service Representatives ("CSRs") to meet obligations, who shall have access to the Web as required to fulfill ATA's obligations, and ATA shall submit a list of the CSRs to MCCL in advance for approval.
- CSRs shall have e-mail as required to fulfill ATA's obligations.
- CSRs shall be subject to periodic call monitoring.
- CSRs shall continue to have access to Microsoft Candidate Manager (and other required Microsoft systems and tools as they become available) to fulfill ATA's responsibilities based upon a mutually agreed upon technology phase-in plan.
- ATA shall manage and record all incoming complaints from Customers and/or Candidates regarding the quality or delivery service of exams and/or Courseware Materials. ATA shall work with ATA Service Providers to resolve such issues and provide to the Customer with any replacement materials within (5) five business days after receiving the complaint.

3.2 KEY PERFORMANCE INDICATORS ("KPIS", REFER TO APPENDIX A, KPI REPORTING REQUIREMENTS)

Progress towards the monthly-measured KPIs listed in this section shall be reported on a weekly basis, unless another timeframe has been mutually agreed.

ATA shall provide certification forecast reports to MCCL on a quarterly basis (or more frequently as mutually agreed). This report will be broken down by the major regions in which ATA provides a call center support function.

- MCCL will work with ATA to convert the certification forecasts to exam delivery forecasts, as requested by ATA.
- ATA will determine staffing needs to meet the call-to-registration ratios. For example, the following ratios might be used: 1.2 calls per forecasted delivery.

Unless otherwise provided for in this SOW, ATA must comply with the defined metrics of the KPIs. If ATA does not meet the defined metrics of the KPIs, MCCL reserves the right to impose agreed upon remedies as set forth in the Master Service Agreement.

- PHONE SERVICE LEVEL (PSL) measures the percentage of calls answered within ninety (90) seconds or less. The time begins at the later of: (1) when the connection is made, (2) any prerecorded broadcast messages have been played; or (3) the Candidate chooses to talk to a call representative from a phone menu.

BENCHMARK: a minimum of 80% of inbound calls each month shall be answered by a CSR within 90 seconds or less. This shall be reported monthly by the RESC to MCCL. In the event this benchmark is not met, ATA shall report reasons for such performance and actions taken to correct, along with completion dates, to MCCL.

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ATA shall report to MCCL monthly the total number of calls received at each RESC. In addition, if the PSL is not met in accordance with the benchmark requirements as set forth in the preceding paragraph, MCCL may request that ATA report these metrics weekly until the metric has been met for four (4) consecutive weeks.

These metrics will be reported to MCCL via a mutually agreed upon format.

- PERCENTAGE OF CALLS HANDLED (PCH) measures the percentage of calls received at the call center, which are handled, or answered, by a CSR. (This metric is also referred to as the "abandonment rate".)

BENCHMARK: ATA shall handle a minimum of 96% of all calls received each month (4% of calls are abandoned).

ATA shall report these metrics of each RESC monthly to MCCL. In the event these benchmarks are not met, ATA shall report reasons for such performance and actions taken to correct, along with completion dates, to MCCL.

ATA shall report to MCCL monthly the total number of calls received by each RESC and how many were not abandoned. In addition, if the metric is not met, MCCL may request that ATA report these metrics weekly until the metric has been met for four consecutive weeks.

- CHANNEL SUPPORT CALLS RECEIVED. ATA shall provide call center support via phone, e-mail, Instant Messaging, or other communication mechanisms for its testing sites. Support services include:
  - Technical support
  - Financial systems support
  - Candidate escalation support

In the event that service level concerns arise from the channel, MCCL reserves the right to request monthly regional PSL and PCH reports, as well as time-to-resolve metrics, as a measurement of support service quality.

### 3.3 MCP EXAM PROGRAM INFORMATION

The ATA CSR staff shall be familiar with the information contained within Appendix B, MCP Customer Service Calls. Updated program information will be relayed to ATA through, but not limited to, the following methods: e-mail, ATA Brief (defined in Section 11.1 hereinbelow), contract, or SOW. ATA will make program information easily accessible to each phone/order entry representative and the phone/order center management staff.

Candidates requesting program information beyond that found in Appendix B, MCP Customer Service Calls, should be referred to the Microsoft public Web site or transferred to RESC as necessary.

### 3.4 STAFFING

ATA shall staff to handle the volume forecasts provided by MCCL, as detailed in Section 3.2 ATA shall provide RESC staffing plans when requested by MCCL. MCCL shall not request this report more than once per quarter unless phone service metrics have been missed for one (1) full month.

### 3.5 LANGUAGE CAPABILITIES

ATA's call center network shall support all languages that correspond with each localized MCP exam at no additional cost to MCCL. Currently, these languages include English and Chinese. In the event that future needs change, MCCL will provide an ATA Brief (defined in Section 11.1 herein below) to request that additional languages be supported.

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### 3.6 RESC MOVES

ATA shall provide a minimum of thirty (30) day notice for any RESC move or any system move that can reasonably be determined will affect the scheduling or testing of Candidates. In the event of urgent circumstances or an overriding business need, ATA will provide a report to MCCL summarizing the move and its effect, if any, upon the MCP testing program.

### 3.7 CALL MONITORING

Where technology exists and local laws permit, MCCL shall be entitled to remotely monitor incoming phone calls to RESCs, undetected by the CSR being monitored. Additionally, where local laws do not prohibit recording, MCCL shall be entitled to have calls being monitored and/or being recorded as necessary.

### 3.8 TRAINING

ATA must employ a designated trainer that is knowledgeable of the MOE Polytechnic Program and the MCP Program, as defined in Appendix B, MCP Customer Service Calls. ATA shall publish training documents for MCCL review, as requested by MCCL. MCCL may recommend specific areas of focus for CSR training/retraining for the MCP program. MCCL shall provide appropriate collateral training as necessary.

#### 4.0 REGISTRATION AND SCHEDULING OF EXAMS

##### 4.1 REGISTRATIONS

For each registration ATA shall ask the following questions and collect the following information:

- Have you taken a Microsoft Certification test before?
- MCP ID number (required if Candidate has previously taken a test).
- First Name, Last Name, and middle initial (if applicable)
- Address, City, Province, Country, Postal Code
- Valid Country ID
- Internet e-mail address
- Company/organization name (if the Candidate does not have a Company/organization name, the CSR may optionally enter "NO COMPANY")
- Telephone number (work and home)
- Fax number (Optional)
- For the first registration made by a new Candidate, ATA shall verify and spell back all information listed above, and must verify that each student is a full-time student at the Customers.
- For subsequent registrations, ATA shall verify all information listed above.

##### 4.2 CANDIDATE NOTIFICATION

ATA shall implement, wherever possible, a method for confirming to Candidates their exam appointment time, which may include e-mail or other selected method.

##### 4.3 REGISTRATION AND EXAM AVAILABILITY

ATA shall take all necessary measures to ensure that instructors or officials at Customers shall be required to register Candidates, and to register within the time period that MCCL designates as the exam registration period.

ATA shall not allow Customers to register Candidates for an exam before or after the dates that MCCL designates as the exam registration period.

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ATA shall not deliver an exam to any Candidate before or after the dates that MCCL designates as the exam availability period without express written consent from MCCL.

The start of the exam registration period typically precedes the exam availability by 1-2 weeks for a beta exam, and by one (1) day for live exams. (See also Section 12.2 for publishing information.)

The start or end date/time for registrations at a call center or test site shall be the China local time, relative to the location of the call center or test site.

The start or end date/time for exam delivery shall be the China local time of the test site.

ATA shall make best efforts to disallow beta exam delivery at testing sites who chronically fail to meet the 14-day Exam Data Sent KPI (see Section 8.6).

ATA shall make best efforts to disallow Candidates who have been banned from the MCP program from registering for and taking exam. This includes Candidates identified by ATA as having cheated, as well as identified as being cheaters by other parties (see Section 10.7).

##### 4.4 SAME-DAY REGISTRATIONS

ATA is permitted to disallow a Customer from requesting an exam delivery date that coincides with the date of the registration request. ATA is encouraged, however, to allow these "same-day registrations" whenever possible, in order to further promote Customer satisfaction. In some

instances, ATA may accommodate same-day Candidates by scheduling them for a time in "today's past," in order to maximize seating capacity. ATA must take care when scheduling the test appointment to ensure there is sufficient time to download the exam to the exam workstation, as this could adversely impact the Exam Service Level KPI (see Section 9.1).

#### 4.5 REGISTRATION REPORTING

ATA shall report to MCCL the total number of registrations taken and registrations cancelled for Candidates, as well as the number of exams delivered. These metrics shall be broken out by those received via a CSR at a call center, those taken via the Internet, and those registrations taken directly at the testing centers.

ATA shall report these metrics weekly via the KPI format outlined in Appendix A, KPI Reporting Requirements.

MCCL may also require that registrations be broken out by exam type.

Beta exam registration reports shall be provided daily during the beta exam period, beginning with the beta pre-registration period and ending at the conclusion of the beta exam availability.

#### 4.6 CANCELLATION AND RESCHEDULING POLICY

- CANDIDATE CANCELLATIONS. ATA will notify Candidates of cancellation and rescheduling policies at the time of registration. This includes registrations completed at call centers, testing sites, or via the ATA Web site. ATA shall allow all Candidates the opportunity to cancel a registration provided that the Candidate calls to cancel at least 24 hours prior to the scheduled appointment. The Candidate may also reschedule an appointment with at least 24 hours notice prior to the scheduled appointment. ATA may not set the cancellation deadline to be greater than 24 hours prior to the appointment, as this impacts customer satisfaction. ATA shall have discretion to be more customer-friendly and make exceptions regarding cancellations and reschedules requested with less than 24-hours advanced notice. If the Candidate does not cancel or reschedule the registration prior to the cancellation deadline, the Candidate shall be designated as a "no-show."

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If a voucher or promotional code is used to pay for an exam, the Candidate may not reschedule an exam beyond the expiration date of the voucher or promotion.

- ATA CANCELLATIONS. If ATA must cancel a Candidate registration for any reason, ATA will notify the candidate at least one (1) business day (24 hours) prior to scheduled exam. In the event that ATA cannot contact the candidate prior to cancellation, ATA will make appropriate compensation to candidate, such as a free exam at ATA's expense. ATA will report all instances when a candidate's registration is cancelled by ATA. This report should detail the reason(s) why the registration was cancelled. ATA shall design this report, which is subject to approval by MCCL. See Appendix E, Report Key, for additional information on this report.

#### 4.7 RETAKE POLICY

ATA shall enforce the MCP exam retake policy and not permit Candidates to register or take an exam which violates this policy. This enforcement shall be based on registration data from within ATA's system alone. When MS-Cert integration is available, the enforcement shall be based on registration data from within MS-Cert. MS-Cert is defined in Appendix D (ATA Exam Results Import Format).

The policy for MCP exam retakes is:

If you do not pass an exam the first time, you may retake it at any time. If you do not achieve a passing score a second time, you must wait at least 14 days to retake the exam a third time. A 14-day waiting period will be imposed for all subsequent exam retakes. If you have passed an exam, you cannot take it again. Beta exams may be taken only once.

Candidates are eligible for each course to take associated exam and one re-take if initial exam ends in failure. Subsequent retakes must be attempted through commercial channel.

MCCL shall provide at least thirty (30) days notice to ATA in the event the retake policy changes or a special case is necessary for a given exam.

#### 5.0 QUALITY ASSURANCE AND CUSTOMER SATISFACTION

ATA will implement the following requirements for Customer surveys:

- Survey shall be an in-house survey. ATA is encouraged to supplement with an independent research organization survey, but must keep their

survey data separate from the independent data.

- MCCL reserves the right to approve questions asked in the survey and may request additional questions to be added to the survey. MCCL shall make reasonable attempts to limit the number of survey questions. MCCL shall not request survey question updates more than two (2) times per year.
- Survey will be delivered to a statistically relevant, worldwide population of MCP candidates within two (2) weeks after the Candidates have taken an exam.
- Excessive annual survey costs may be managed by ATA by limiting survey to key geographic areas, rotating regions surveyed, limiting sample size and number of survey questions, and use of electronic survey methods.
- Legal, technology, and other practical issues might limit the scope of the survey in some regions. ATA will advise MCCL of any such limitations.
- Survey results will be provided to MCCL on a monthly basis, or on a mutually agreed timeframe. Results shall be provided to MCCL in a summary report, with raw data made available upon request.

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- Survey data will measure customer experience with testing at ATA, starting with exam registration (through call centers, test sites, or web registration), through exam delivery and post-exam requests (e.g., replacement score report requests)

MCCL also reserves the right to perform one or all of the following on a reasonable basis at MCCL expense:

- MCCL Customer satisfaction survey
- Call monitoring
- Secret shopping of ATA's call center representatives and testing centers

Based on the results of any or all of the above-mentioned survey or methods, ATA may be asked to implement a mutually agreed upon performance improvement plan to increase the quality of Candidate service in the call center(s), test sites, or web.

All Customer surveys conducted by ATA shall be in accordance with local laws. Consultation, if needed, may be provided by MCCL and MCCL service providers.

#### 6.0 INCIDENT TRACKING, RESOLUTION, AND REPORTING

To meet the needs of the MCP program in the event that an incident occurs that causes or has the potential to cause a disruption in service to Candidates, ATA shall notify MCCL as soon as an incident has occurred. In addition ATA shall ensure the following are in place:

- Escalation path established for CSR, Testing Center channel, ATA management, and MCCL contacts.
- Incident tracking system to capture information including, but not limited to: date, Candidate name, issue type (categorized to facilitate summary roll up), CSR or other point of initiation, escalation path, resolution, date of closure.
- A MCCL Escalation Report shall be produced monthly. ATA shall design this report, subject to MCCL's approval. The report should include trend data as well as extraordinary incidents, in order to provide a gauge of the health of the business.
- ATA is responsible to respond to all issues within one business day and track the issue until resolved. ATA will make its best efforts to resolve all issues within five (5) business days. In the event an escalation must be forwarded to MCCL for further research, ATA will continue to track status of the issue until resolved. ATA is also responsible to compensate any Candidate affected by deficiencies of ATA, at ATA's discretion.

#### 7.0 DATA INTEGRITY

The following Sections 7 and 8 define requirements, processes, and metrics regarding data and data feeds to MCCL. Additional requirements and procedures are defined in, Appendix C, Missing Exam Information and Data Feed Process. The sections below refer specifically to the current model where ATA collects data from MCCL customers and remits data via a file feed.

ATA is responsible to deliver all Candidate and exam data per the

processes, formats and KPIs outlined in the Appendix A, KPI Reporting Requirements. In the event ATA is unable to correctly remit data to MCCL, ATA is responsible to resolve any issues or to bring to MCCL's attention, and continue to track until the issue is resolved. This includes all records rejected by MS-Cert or failure to connect with a Microsoft server to download data.

#### 7.1 DATA INTEGRITY AUDIT

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MCCL reserves the right to audit ATA's data as it pertains to Candidates no more than twice per year at MCCL's expense. Audits will be scheduled at least 10 business days in advance and occur during regular business hours. MCCL may also request ATA to perform an audit of their data and publish the results of that audit to MCCL. If such audit was not scheduled by ATA and ATA incurs expenses related to the audit, MCCL should be responsible for the expenses incurred, at ATA's request.

#### 7.2 DEMOGRAPHIC CHANGES

ATA may update Candidates' demographic information as needed; however, for security concerns, ATA is prohibited from updating Candidates' names. Candidates must contact a Microsoft RESC for name changes. ATA shall update the Candidate database for address changes received from the nightly MCCL file feed within 48 hours of receipt. ATA shall report to MCCL monthly on number of address changes completed within 48 hours.

#### 7.3 MERGES

ATA is to complete all merge requests received from Candidates via RESCs, within two (2) business days of receipt. ATA is to complete all merge requests received from Candidates via MCCL, within one (1) business day of receipt.

When a merge is requested, the duplicate Candidate information will be merged into the original Candidate record. ATA will prevent duplicate records from being created for Candidates who register via RESCs.

#### 7.4 MISSING RESULTS

ATA will research and make best efforts to resolve any issue regarding an exam record that is missing from either MCCL or ATA following first formal notification by MCCL or its agents. This notification indicates that the Candidate is aware that his or her record is incomplete and has escalated to MCCL or MCCL agent. Quick resolution is critical. ATA shall make best efforts to provide either resolution or a plan for resolution for missing exam results within three (3) [business] days. In the event an escalation must be forwarded to MCCL for further research, ATA shall continue to track status of the issue until resolved. This issue should be considered an escalation and rolled up with escalation reports listed under Section 6.0. Missing exam results procedures are defined in Appendix C, Missing Exam Information and Data Feed Process.

##### ATA MISSING EXAM RESULTS - ERROR FILE CORRECTION

ATA will research and make best efforts to resolve any issue regarding an exam record that errors out from MCCL upon receipt of an exception report from MCCL within five (5) days of the receipt of the exception report. In the event that exception reports are not generated for a period of longer than three (3) business days, ATA shall make best efforts to resolve these issues within 5 days.

##### ATA MISSING EXAM RESULTS - ESCALATED ISSUES SPREADSHEET

ATA will research and make best efforts to resolve any issue regarding an exam record that is missing from either MCCL or ATA following first formal escalation by Microsoft Cert Tier 1 Support. This escalation indicates that the Candidate is aware that his or her record is incomplete and has escalated to MCCL or MCCL agent. Quick resolution is critical. ATA will make best efforts to provide either resolution or a plan for resolution for escalated exams within three (3) days.

##### ATA MONTHLY RESULT RESYNCHRONIZATION AND RECONCILIATION

ATA will perform an initial resynchronization and provide MCCL with the results within five (5) days after the end of each calendar month. Upon analysis by MCCL and return of the results of said analysis to ATA, ATA will make best efforts to provide either resolution or a plan for resolution for all outstanding results within five (5) days.

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#### 7.5 DATA CONFIDENTIALITY AND PRIVACY GUIDELINES



ATA agrees to comply with MCCL data confidentiality and privacy guidelines that will be updated from time to time.

The following highlights the MCCL data protection and privacy principles. ATA shall make best efforts to conform to these principles and shall provide status reports to MCCL on their progress, to conforming to these principles.

- NOTICE. Personal data shall be obtained only for one or more specified and lawful purposes, and shall be collected only following adequate notice of how the data will be used.
- CONSENT. Personal data shall not be used in any manner beyond the specific purpose(s) for which the individual provided it, unless there has been adequate disclosure of the additional purpose(s) and the individual has consented.
- SCOPE & ACCURACY. Personal data collected shall be adequate, relevant, and not excessive in relation to the purpose or purposes for which they are collected. Personal data shall be kept accurate and up to date, and shall not be kept for longer than is necessary for the purpose or purposes for which it was collected.
- ACCESS. Individuals shall be given reasonable access to their personal data and shall be able to correct or amend that data where it is inaccurate (except as specified in Section 7.2 limits to correction).
- SECURITY. Appropriate technical and organizational measures shall be taken against unauthorized or unlawful use of personal data and against accidental loss or destruction of, or damage to, personal data.
- REMEDY. Candidates shall be given a means of recourse in the event that the stated privacy principles are not followed.

#### 8.0 EXAM RESPONSE AND CERTIFICATION DATA FEEDS

This section provides requirements for Exam Response and Certification data feeds to MCCL. ATA will comply with all requirements necessary to successfully transmit data to MCCL. Additional requirements will be listed in an ATA Brief (defined in Section 11.1 hereinafter) as necessary.

#### 8.1 DATA FEED DEFINITIONS

See Appendix D, ATA Exam Results Import Formats, for definitions of Candidate profile and exam results data to be returned to MCCL.

#### 8.2 DATE AND TIME STAMP

ATA shall include a date and time stamp on all records. This date stamp should reflect when a Candidate's demographic data has been updated as well as when the Candidate actually completed an exam in the test centers time zone. ATA shall make best efforts to ensure that their registration and delivery system clocks are accurate and synchronized with their other systems.

#### 8.3 CONNECTIVITY

ATA will comply with MCCL connectivity requirements as outlined in Appendix D, ATA Exam Results Import Formats.

#### 8.4 SUPPORT

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ATA will facilitate direct contact between customer's technical support and maintenance team, and ATA's support staff. 24-hour support must be available in the event of data problems. ATA must have its systems configured to page ATA's support staff in the event of server or database failure.

#### 8.5 DATA FEED SCHEDULE

MCCL requires that at least one feed be sent to MCCL by 5:00 PM (PST) every day. ATA may send more than one feed daily, but may do so only between the hours of 5:00 AM (PST) and 5:00 PM (PST). ATA may not send feeds during other times as this interferes with file processing within Microsoft systems. In the event that a file is not received, ATA is required to respond to MCCL within twelve (12) hours detailing reason why files were not sent, action plan, and resolution date to correct.

#### 8.6 KEY PERFORMANCE INDICATOR: EXAM DATA SENT

ATA shall deliver MCP exam results according to the following KPI requirements:

- 90% of exam records within 72 hours (3 days) of exam delivery
- 100% of exam records within 120 hours (5 days) of exam delivery AND no

more than 500 late records

- 100% of exam records within 336 hours (14 days) of exam delivery

The timeframe metrics shall be measured from the time the Candidate finishes the exam to the time that the exam record is first sent to MCCL (i.e., the data is successfully downloaded to the Microsoft FTP site).

ATA shall report to MCCL this performance indicator on a monthly basis. In the event this benchmark is not met, ATA shall report reasons for such performance and actions taken to correct, along with completion dates.

#### 8.7 DATA RETENTION

ATA will store and archive all exam data for a period of not less than five (5) years from original exam delivery date and make data available to MCCL upon request.

#### 9.0 EXAM DELIVERY

ATA shall be responsible for delivering all of the MCP exams in a secure, proctored environment and in a matter as required hereinbelow. This section 9 specifically provides the requirements for Exam Delivery at test centers.

#### 9.1 KEY PERFORMANCE INDICATOR: EXAM SERVICE LEVEL

ATA is required to deliver 98% of all exams to properly enrolled Customers on or before Candidate's scheduled exam. This KPI shall include same-day registrations, except for those test appointments that are made for the same day, but at a time prior of the registration transaction (see Sections 4.3 and 4.4). ATA shall report this to MCCL on a monthly basis. In the event the metric is not met on a monthly basis, ATA shall report reasons for such performance and actions taken to correct, along with completion dates.

For those affected Candidates whose exams are not ready for delivery on time, ATA shall offer compensation to these Candidates in order to maintain customer satisfaction. This compensation will be most commonly in the form of exam vouchers, for which ATA shall bear all costs, unless the reason for the non-delivery is due to circumstances outside ATA's control as defined as force majeure in Article 12.9 of the Master Service Agreement.

#### 9.2 EXAM OFFERINGS

MCCL shall make available -- and ATA shall offer for delivery -- MCP published exams offered through the MOE Polytechnic Program in the means to be decided by MCCL in its sole discretion.

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#### 9.3 LOCALIZATION

MCCL requires ATA to support all localized exams published by MCCL. Moreover, MCCL requires that ATA's systems support the delivery of exams in double-byte languages. See also Section 12.2.

#### 9.4 TIME DURATIONS AND EXTENSIONS

MCCL shall limit the exam session duration for live exams to four (4) hours or less, and beta exams shall be limited to six (6) hours or less; exceptions must be mutually agreed by ATA Testing and MCCL at least 30 days in advance of the target publishing date. The exam session time includes presentation of the NDA (defined in Section 9.5), demographic survey, exam content, comment sections, and other sections MCCL might introduce in the future.

#### 9.5 EXAM NON-DISCLOSURE AGREEMENTS (NDA) AND PRIVACY STATEMENTS

Because Candidates must agree to a Non-disclosure Agreement (NDA) and accept any Privacy Statement before being permitted to take an exam, ATA must provide the following services:

- Proctors at the testing sites must be trained on the NDA policies for those individuals who question it or refuse the agreement or statement.
- The exam driver must have the ability to require Candidates to answer Yes/No to the NDA and any privacy statement. If the Candidate chooses No, it must verify the response, and if necessary, terminate the exam. The responses (accept or decline NDA) must be captured.
- The exam driver must permit the NDA and privacy sections to be excluded from the primary timed section of the exam.
- Candidates who refuse the NDA or Privacy Statement at the test site (i.e., the exam is terminated) must not be scored as having failed the exam. ATA will send data for this Candidate per Appendix D, ATA Exam Results Import Formats.

## 10.0 SECURITY

### 10.1 EXAM SECURITY BREACH

ATA and MCCL shall work together to reduce piracy, cheating issues, and incidents. ATA shall identify any potentially suspicious activities regarding a Candidate taking an MCP exam. Each incident should be escalated to MCCL and should be included in the Escalation Reporting described in Section 6.0. Escalations may include questionable activity on the part of an Microsoft Certified Professional or Microsoft Certified Trainer as well as a Candidate taking a MCP exam. With respect to any incident of suspected cheating, at MCCL's request, ATA shall provide MCCL with an official document, executed by the proctor or other ATA support staff who observed the cheating incident, setting out all relevant facts supporting the conclusion that cheating occurred. MCCL reserves the right to take action regarding Candidates, in addition to requiring ATA to take appropriate action as mutually agreed to by ATA and MCCL.

### 10.2 TESTING CENTER SECURITY

Physical security provided by ATA at testing centers must address the following issues:

- Live proctoring Testing Center Representative must be physically on-site and ensure that:
- Positive identification is made before admitting Candidates using valid government-issued photo identification (e.g., passport, driver's license, state ID card, school ID card).

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- Photograph of Candidate must be taken and included on his/her score report and archived.
- Candidates read and sign a Test Center Rules and Regulations form that describes test center and cheating policies. The text of this form shall be mutually agreed to by MCCL and ATA.
- Candidates use only test-center-provided reusable wipe board and marker. ATA test center shall provide the reusable wipe board and marker to the Candidate prior to taking the exam and retrieve it upon the Candidate's exit. No other foreign materials are allowed into the testing area.
- Proper noise levels are maintained (including no talking between test takers).
- Time limits are strictly enforced.
- The proctors and test site administrators at a test center may not be current MCPs (see definition in the following paragraph) and may not pursue taking new MCP exams. Instructors may not proctor their current Candidates.

Proctors and test site administrators are considered to be a current MCP if their credential is still valid (i.e, their exam(s) have not retired); or if they are not current MCPs, they have failed any MCP exam within the previous twelve (12) month period.

- Test Candidate must take the exam without aid from external reference materials (e.g., books, crib sheets, Internet web sites, audio devices, photo wristwatches and other espionage technologies) or from any person. ATA test centers will make reasonable efforts to identify external reference materials as given in the above example.
- Test stations must be visually separated from one another (privacy panels may be used).
- Candidates should have no access to any exams before or after their official testing session.

### 10.3 TEST CENTER COMPLIANCE

The reputation of the MCP Program is based in part on the security and integrity of the exam taking experience. ATA shall make every effort to effectively communicate Microsoft's policies and procedures to the Customers and to ensure that all Customers are compliant with such policies and procedures. In addition, ATA must define and maintain a quality control and assurance program to ensure Customers adhere to Microsoft's policies and procedures. The primary objective is to initiate investigation of deviations from these policies and procedures within five (5) business days after said deviation is discovered. In the event that a Customer is suspected of deviations from Microsoft's policies and procedures, ATA shall take any reasonable steps to remedy the situation in a reasonably short period of time. In the event that ATA terminates a Customer's Training Agreement in accordance with Exhibit B of the Master Service Agreement, ATA will take reasonable steps to ensure that Candidate coverage is not affected, by identifying alternative locations for test delivery. On a

monthly basis, ATA will submit summary reports to MCCL that include summary of findings, root cause analysis, corrective action taken, and ongoing measurement.

#### 10.4 SECRET SHOPPING

ATA shall perform both random and targeted secret shopping of its testing centers via video monitoring or other agreed means. Any video monitoring tapes, CDs, etc will be archived for no less than five (5) years by ATA and ATA shall make the same available for MCCL upon MCCL's request.

MCCL also reserves the right to secret shop ATA testing centers. If ATA or MCCL discovers suspicious activity, ATA shall continue to investigate the test center(s) in question, and/or take appropriate action, up to and including de-authorization of MCCL testing or permanent site closure.

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#### 10.5 SITE CLOSURES DUE TO SECURITY INFRACTIONS

In the event that ATA shuts down a testing site for deviations from ATA/MCCL standards, ATA shall ensure that such site is not allowed to deliver tests until MCCL and the vendor(s) have determined the site is eligible to begin delivering MCP exams again, at which time the site can resume delivering MCP exams through any or all vendors. In addition, MCCL RESERVES THE RIGHT TO DISALLOW ANY CUSTOMER FROM DELIVERING MCP EXAMS either based on MCCL findings through secret shopping or from information provided by ATA that indicates suspicious activity or a breach of exam security by an ATA testing center. ATA shall ensure that MCCL's such rights will be stated in the Training Agreement attached to the Master Service Agreement as Exhibit B of the Master Service Agreement. If MCCL decides to disallow a Customer for the above reasons, ATA shall take all necessary actions, without delay, to implement and effectuate such decision of MCCL

#### 10.6 SITE LEVEL STATISTICAL ANALYSIS

ATA will conduct statistical analyses at the site level for MCCL at least once per fiscal quarter for irregularities such as unusual pass rates or exam session times, business rule infractions, and other suspicious patterns in the data. MCCL will make best efforts to provide support for these analyses.

The purpose of these analyses will be to determine if any testing sites are passing or failing Candidates at an abnormal rate. These sites are considered to be "outliers." This analysis will be conducted globally using statistically sound methodologies (especially using higher volume active exams). This is done to ensure that the analysis provides enough data to be statistically sound.

ATA will conduct investigations into these sites and will make determinations based upon evidence found during investigations, as well as patterns of abnormal behavior, whether or not action is required. Actions can range in severity, but could result in permanent closure of the site (see Section 10.5).

The results of these quarterly investigations will be made available to MCCL in a report to be included in Appendix E, Report Key.

#### 10.7 INDIVIDUAL CHEATER NOTIFICATION

ATA will work with the Customers and regional channel management groups to identify all Candidates who are suspected of violating MCP Exam Security Policy. After notification, ATA shall investigate the situation to determine if there is enough evidence to substantiate the claim. To the extent permitted by law, if enough evidence is present, ATA will make best efforts to prevent the Candidate from taking any future MCP exams. ATA will then notify MCCL of the infraction, and provide the supporting evidence to support this decision. ATA will then notify the Candidate via letter of his or her testing ban, and inform MCCL of the date that letter is sent. Should Candidates desire to appeal the ban, they will be directed to ATA if the Candidate feels that the evidence against him/her is neither accurate nor sufficient, or directed to MCCL if the Candidate admits his/ her guilt and wants to appeal the severity of the penalty.

ATA will report monthly on all individual cheater activity, with the report to be included in Appendix E, Report Key.

This individual cheater report shall be shared with all exam delivery vendors and MCCL regional service centers to ensure that banned Candidates are kept out of the program (see Section 4.3).

#### 11.0 PROJECT MANAGEMENT

##### 11.1 ATA BRIEFS

MCCL agrees to prepare and use a standard ATA Brief document, which will be the only method of formal communication with ATA for updates to this SOW, or for new activities that ATA will accept.

There are two primary types of ATA Briefs, depending on the nature of the new activity required:

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- (1) Program Change Brief --which cover program change requirements, which incur no additional costs to MCCL, which shall be accepted and observed by ATA; and
- (2) Work-for-Hire Brief - which cover "work-for-hire" activities, for which additional costs if any, to MCCL must be negotiated and agreed upon between MCCL and ATA before the start of the activity.

ATA Briefs will be supplied to ATA a minimum of fifteen (15) business days prior to the start of the activity. ATA will respond to MCCL within five (5) business days upon receiving ATA Briefs to discuss any potential issues, including whether a Program Change Brief should instead be a Work-for-Hire Brief.

In the event that ATA does not respond within five (5) business days, MCCL and ATA shall assume full compliance with ATA Brief. Above timelines are subject to change upon the mutual agreement between MCCL and ATA.

ATA will reject any ATA Brief that is not authorized by signature by the ATA Account Manager at MCCL or other MCCL contact designated by same. Any activity implemented without this authorization will be at ATA's sole financial and resource risk.

#### 11.2 CHANGE MANAGEMENT

MCCL requires that ATA notify MCCL before implementation of a new process or procedure, or a change to a current process or procedure that affects MCCL, Microsoft's database or MCP Candidates. MCCL also reserves the right to approve/disapprove any changes proposed by ATA that affect MCCL or Candidates; approval shall not be unreasonably withheld.

Upon request, ATA will provide MCCL with copies of their policies or procedures relevant to the MOE Polytechnic Program as long as they are not confidential to ATA. Any disclosure of confidential documentation or information provided to MCCL will be subject to the Non-Disclosure Agreement then in effect between MCCL and ATA, which is attached hereto as Appendix J, NDA.

ATA will keep an issue log of all outstanding issues, regarding MOE Polytechnic Program. The format will be mutually agreed upon by ATA and MCCL.

#### 12.0 EXAM PUBLISHING, POSTING, AND DISTRIBUTION

##### 12.1 DEFINITIONS

- PUBLISHING (INCLUDES "TECHNICAL DESIGN" AKA "FILE PREP"). The process of converting raw exam files (e.g., Word, XML, TDL) provided by MCCL to the XML format needed by the ATA test driver.
- POSTING. The process of placing the XML file within the ATA registration and delivery systems. This includes setting the parameters for delivery (e.g., initial registration date, initial delivery date, required assets).
- DISTRIBUTION. The process by which needed exam files are downloaded to a Customer in advance of the scheduled test delivery appointment.

##### 12.2 EXAM PUBLISHING, POSTING, AND DISTRIBUTION PROCESS

- ATA shall publish and post exams for MCCL. If MCCL elects to publish the exams or designate a third-party ("MCCL Exam Designee") to publish the exams, MCCL shall draft a brief that specifies a mutually agreed upon publishing process.
- MCCL and ATA will create and agree to a Standard Publishing Schedule, which will be in the form of a Microsoft Project document (see Appendix I, Standard Publishing Schedule). Changes to this Standard Publishing Schedule or deviations from the Standard Publishing Schedule for a given exam must be agreed to by both parties.

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- MCCL shall make reasonable efforts to limit weekly publishing workflow to eight (8) exam publications, with no more than three (3) exams on a given day. With sufficient notice, deviations from this schedule shall be mutually agreed.
- During the period where ATA is publishing and posting exams for MCCL:

- MCCL will provide ATA with exam publishing and posting schedules via weekly meetings and by routinely distributing schedule spreadsheets as needed (minimally, once a month). MCCL shall provide as much advance notice as possible concerning upcoming exam publications, which shall typically be at least one month's advance notice.
- MCCL will forward all necessary files (e.g., exam content using pre-agreed formats and templates (including Word documents, graphics, XML, TDL)) and exam specifications (e.g., forms, timing, scoring, presentation strategy) to ATA for publishing per the timeframe in the Standard Publishing Schedule.
- ATA will publish the exam and provide a reviewable version to MCCL for comments and corrections per the Standard Publishing Schedule (see Appendix I, Standard Publishing Schedule). ATA will ensure the exam presents and scores properly, but will not be responsible for content accuracy (unless the content was changed by reasons on the part of ATA). ATA will not make any content changes without approval from MCCL.
- MCCL will conduct a quality assurance review of published exams and return comments to ATA per the Standard Publishing Schedule (see Appendix J, Standard Publishing Schedule).
- ATA will post final version of exam.
- MCCL shall own all exam source files and shall retain copies of them. ATA shall also retain copies of all currently live exam versions. ATA shall retain copies of retired exams, or retired versions of live exams, for a minimum of two (2) years from the retirement date, in the published format.
- LOCALIZATION. MCCL requires ATA to support all localized exams published by MCCL. In addition, MCCL requires that ATA and ATA's systems support double-byte languages. See also Section 9.3.

### 12.3 BETA EXAMS

ATA shall deliver MCP Beta exams. These exams use exam series 071 (the final live MCP exam series is 070). Elements of the Beta process may include the following:

- MCCL will forward all necessary files to ATA for publishing per the Standard Publishing Schedule (see Appendix I, Standard Publishing Schedule), unless shorter timeframes have been mutually agreed.
- MCCL will define beta exam parameters. ATA will open and close beta exam registration based on these parameters. Parameters may include a set time frame, a fixed number of registrations, a reduced price or other promotion, etc.
- ATA will return Beta exam results ("beta rescores") to MCCL as per normal results reporting processes. MCCL will establish the cut score.
- Beta exams will be re-scored by ATA and results will be sent to Candidates and MCCL per the Standard Publishing Schedule (see Appendix I, Standard Publishing Schedule). The objective is to provide final beta scores to MCCL and Beta exam Candidates prior to Beta exam moving to live version. Failure to meet the time frame will be cause for ATA to make reasonable compensation to the affected Candidates, such as offering a free exam at ATA's expense.

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### Exhibit A

- Beta exams might include a MCCL-funded promotional incentive in order to attract Candidates to take the exam during its limited availability. For example, a promotion might be to issue one or more exam vouchers for those Candidates who pass the beta exam. Because the candidates' scores are not determined until several weeks after the candidate has taken the exam, ATA shall fulfill voucher promotions by including the voucher(s) with the score report to only those candidates who qualify for the promotion (e.g., they passed the beta exam). MCCL shall provide an ATA Brief if ATA is to fulfill promotional materials other than exam vouchers.

### 12.4 EXAMS

- ATA shall publish and post exams for the Customers. MCCL reserves the right to publish the exams or designate a third-party ("MCCL Exam Designee") to publish the exams.
- During the period where ATA is publishing and posting exams for MCCL:
  - MCCL will provide ATA with exam publishing and posting schedules via regular meetings and by routinely distributing schedule spreadsheets as needed (minimally, once a month).

- MCCL will forward all necessary files to ATA.
- ATA will post final version of exam

## 12.5 TECHNICAL DEVELOPMENT

In the case where MCCL or MCCL Exam Designee is developing a new item type (e.g., simulations, drag-and-drop) or implementing a new test technology (e.g., computer adaptive testing), upon MCCL's written consent, ATA will become an active member in the development/psychometric team. MCCL shall provide a brief and notify ATA a minimum of two (2) weeks prior to the onset of the project (see Section 11).

The role of ATA member(s) is to ensure that the new item type/test technology will be fully functional within the ATA test driver. It may be necessary for members (ATA, MCCL, or MCCL Exam Designee) to travel to ensure the success of the project. Schedules, travel, and costs shall be negotiated at the onset of the project.

ATA and MCCL or MCCL Exam Designee shall perform final integration testing on new item types and new testing technologies within two (2) weeks of the handoff of final content. Overall project schedules to be mutually agreed upon prior to implementation of a given project.

## 13.0 CHANNEL

### 13.1 CHANNEL AND GEOGRAPHIC COVERAGE

MCCL's goal is to have convenient test delivery and training locations for Candidates nationwide and establish testing centers in an exam delivery market segments that do not currently offer MCP exams (e.g., universities). ATA shall make reasonable efforts to meet or exceed these goals. ATA will present to MCCL, monthly, ATA's strategy and progress against these goals and outline all efforts to reach these goals. ATA shall provide MCCL with copies of executed agreements (Exhibit B of the Master Service Agreement) and work with MCCL to recruit Customers.

### 13.2 CHANNEL HARDWARE AND SOFTWARE REQUIREMENT

ATA shall require Customers to conform to at least minimum standards for hardware and software of its test delivery workstations. These standards include:

- Display monitors: 17-inch CRT
- Display resolution: 1024x768, 16 bit color
- Workstation: PentiumII(R) CPU, 266MHz or faster

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## Exhibit A

- Operating system: Microsoft Windows 2000 Professional
- Peripherals: CDROM drive (on at least one workstation per site)
- RAM: 128MB
- Hard drive space: 2GB
- Graphics memory: 8MB
- Virtual memory swap file: 128MB
- Network thru put: 100 MBPS
- Appropriate cameras and other security hardware required to perform services

ATA shall require training sites to conform to at least minimum standards for hardware and software for training workstations. These standards are based on course content as detailed below:

### LEVEL 0

- Pentium II 300 MHz
- PCI 2.1 bus
- 256 MB of RAM
- 386 MB of RAM for Virtual PC
- 4-GB hard disk
- 256-KB L2 cache
- DVD player
- Non-ISA network adapter 10/100 Mbps

- 4-MB video adapter
- SVGA monitor (17 inch)
- MS mouse or compatible pointing device
- Sound card with headphones or speaker

LEVEL 1

- Pentium II 400 MHz
- PCI 2.1 bus
- 256 MB of RAM
- 386 MB of RAM for Virtual PC
- 8-GB hard disk
- 256-KB L2 cache
- DVD player
- Non-ISA network adapter 10/100 Mbps
- 4-MB video adapter
- SVGA monitor (17 inch)
- MS mouse or compatible pointing device
- Sound card with headphones or speaker

LEVEL 2

- Pentium III 450 MHz
- PCI 2.1 bus
- 512 MB of RAM
- 640 MB RAM for Virtual PC (recommended)
- 12-GB hard disk
- 512-KB L2 cache
- DVD player

Exhibit A

- Non-ISA network adapter 10/100 Mbps
- 4-MB video adapter
- SVGA monitor (17 inch)
- MS mouse or compatible pointing device
- Sound card with headphones or speaker

LEVEL 3

- Pentium III 700 MHz
- PCI 2.1 bus
- 768 Mb of RAM (same for Virtual PC)
- 16-GB hard disk
- 512-KB L2 cache
- DVD player
- Non-ISA network adapter 10/100 Mbps
- 4-MB video adapter
- SVGA monitor (17 inch)
- MS mouse or compatible pointing device
- Sound card with headphones or speaker

LEVEL 4



- Pentium III 1 GHz
- PCI 2.1 bus
- 1 Gb of RAM (same for Virtual PC)
- 18-GB hard disk
- 256-KB L2 cache
- DVD player
- Non-ISA network adapter 10/100 Mbps
- 4-MB video adapter
- SVGA monitor (17 inch)
- MS mouse or compatible pointing device
- Sound card with headphones or speaker

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<S>	<C>	<C>	<C>
2124	2	2415	2
2559	2	2349	2
2028	0	2389	2
2272	1	2663/2500	2
2151/2152	0	2310/2300	2
2153	0	2557	2
2126	1	2555	2
2072	1	2524	2
2667	1	2565	2
1539	0	2071/2073	1
2810/2820	2	2154	0

See Section 13.3 for changes to these minimum requirements.

#### Exhibit A

#### 13.3 CHANNEL UPGRADES

Changes to Microsoft's exam platforms may require that Customers upgrade hardware or software used to deliver exams. MCCL and ATA will define a mutually agreeable timeline as channel upgrades are required. MCCL is under no financial responsibility for these upgrades. MCCL may consider providing software at a discounted price to assist in these upgrades. If a site refuses to comply, MCCL may support ATA's efforts to communicate the importance of any upgrade to the site. If a site fails to comply with requests to upgrade, ATA shall prevent that site from delivering the affected MCP exams, and is permitted to prevent that site from delivering all MCP exams, until the appropriate upgrade is completed.

#### 13.4 CHANNEL REPORTING

ATA shall produce the following channel reports per Appendix E, Report Key:

- On-line, real-time report of all active Customers
- On a semiannual basis, or other mutually agreeable timeframe, ATA will produce a geographic map displaying where Customers are located using Microsoft MapPoint or other agreed-upon format.
- A monthly summary of all test centers by region.

#### 14.0 ATA MARKETING ACTIVITIES

ATA is encouraged to perform marketing activities to not only increase the market effect of its delivery of MCP exams, but to grow the overall MCP certification business. Marketing activities may include, but are not limited to: print and Web site advertising; trade-show exhibitions, sponsorships, and on-site testing; and direct mail (e-mail and postal mail). However, during its marketing activities ATA must follow Microsoft's trademark use rules, which are provided in the Master Service Agreement and this SOW.

ATA shall provide a Marketing Plan for approval by MCCL by June 30, 2003, and thereafter, every six (6) months. This Plan shall include budgets and activities ATA plans to perform to grow MCP business. MCCL shall provide timely feedback on the Marketing Plan and shall not unreasonably withhold approval.

MCCL reserves the right to prohibit ATA from direct-marketing to customers whose names are obtained from MS-Cert and MCP candidate databases. This

consent to direct market will not be unreasonably withheld.

All direct marketing must consider candidate privacy issues, and must therefore exclude any candidates who have indicated they do not want marketing correspondence. (See Section 7.5, Data Confidentiality and Privacy Guidelines).

#### 14.1 MCCL SPECIAL PRICING

From time to time MCCL reserves the right to provide special pricing for Courseware Materials and test bundles or other co-marketing programs mutually agreed upon. These, if any, will be defined in separate ATA Briefs.

#### 14.2 VOUCHER SYSTEMS

- ATA VOUCHER SYSTEM. ATA may choose to create and support a paper or electronic voucher system of ATA's design in order to facilitate exam promotions and/or discounts mutually agreed upon by MCCL and ATA. ATA's system shall track voucher usage in order to ensure that a single voucher is not used more than once for MCP exams. MCCL shall determine expiration length of the vouchers and ATA shall print the appropriate expiration date on each voucher. Exams must be taken by the expiration date on the voucher. There is no requirement at this time that ATA should honor exam vouchers from another MCP exam vendor, however, MCCL has the option to change this requirement at a future date. ATA confirms that such voucher shall not affect ATA's obligation to remit Licensing Fees to MCCL.

#### 14.3 DISCOUNT REPORTS

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#### Exhibit A

As appropriate, ATA will create and submit any and all Discount reports listed in Appendix E, Report Key.

#### 14.4 VOUCHER EXPIRATIONS

Pre-paid exam vouchers shall be valid for no more than six (6) months unless otherwise authorized by MCCL. ATA shall have the ability to extend the expiration date of outstanding (unexpired) vouchers, but will not do so without express authorization from MCCL.

#### 14.5 GENERAL VOUCHER RULES

- A Candidate may redeem no more than one (1) voucher per exam. A single voucher may not be redeemed on more than one exam.
- If a voucher is redeemed for an exam whose price is less than the cost of the voucher ("underutilized vouchers"), then the Candidate forfeits any remaining balance.
- A promotional discount voucher (e.g., 25% discount) may not be combined with other promotional discounts.
- A voucher's expiration date may not be effectively-extended by rescheduling the exam delivery date past the voucher's expiration date.
- Vouchers must include Candidate's name and are non-transferable

#### 15.0 BUSINESS REVIEW MEETINGS

ATA agrees to attend regular Business Review meetings and present according to an agenda as mutually agreed upon with MCCL in advance. These Business Review meetings should take place monthly, or a mutually agreed timeframe. At MCCL's discretion, ATA will also need to present on a Regional basis at specified MCCL Regional locations. ATA will prepare presentations using Microsoft PowerPoint software to enable MCCL to read the presentation in soft copy as well as hard copy. These Business Review meetings will typically take place at the office of MCCL, although Business Review meetings may take place at the office of ATA or via teleconference at MCCL's discretion.

#### 16.0 ACCOUNT MANAGEMENT AND CLIENT SERVICES TEAM

ATA will supply the following points of contact for MCCL. Most of these contacts do not have to be dedicated to MCCL, but they must be known to MCCL and responsive to MCCL, and if the people in these roles change, MCCL must be notified of the change.

- ACCOUNT EXECUTIVE. This person should be responsible, at a high level, for all aspects of the relationship between ATA and MCCL. Responsibilities shall include, but are not limited to: contract issues, relationship issues, overall service quality, and acting as a point of escalation for the entire MCP exam service team.
- PROGRAM MANAGER. This person should be dedicated to the MCCL account and should have a more intimate, working knowledge of the MCCL-ATA

relationship. Responsibilities shall include, but are not limited to: exam development and publishing, call center, finance, data feeds and systems, and resolving open issues with the day-to-day management of the MOE Polytechnic Program as it is delivered by ATA. The Program Manager should have sufficient level within ATA to make decisions and direct the appropriate support people. This point of contact shall be expected to meet (via conference call) with the ATA Account Manager at MCCL and the MCP Exam Development Team or other MCCL contacts at least once a week.

- TECHNICAL CONTACT(S). This person(s) should have intimate knowledge of ATA's data systems and exam development and publishing. This person should be able to work effectively with MCCL on new technologies in exam development and the data systems that support those exams.
- EXAM PUBLISHING CONTACT(S). This person(s) should be responsible for all aspects of exam publishing.

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## Exhibit A

### 17.0 REPORTING

ATA will produce all reports requested in this SOW and listed in Appendix E, Report Key and Appendix L, ATA Program Reconciliation Reports. Samples of all reports are in Appendix E, Report Key and Appendix L, ATA Program Reconciliation Reports. All reports must be sent to MCCL electronically and produced in a Microsoft product such as Excel, Word, or PowerPoint. MCCL reserves the right to request any additional reporting necessary as either regular, standard reports or on an ad-hoc basis, or may request changes to the reports listed in this section. Reasonable requests for new reports or changes to existing will be defined in an ATA Brief as necessary.

ATA is not responsible for meeting all KPIs listed in Appendix A, KPI Reporting Requirements, but rather those listed here:

- Phone service level (by service center) (See Section 3.2)
- Percentage of Calls Handled (by service center) (See Section 3.2)
- Exam service level (See Section 9.1)
- Exam data sent (See Section 8.6)
- Number of calls answered (by service center) (See Section 3.2)
- Number of registrations taken at call centers (See Section Exams Registered by Phone in Appendix A attached hereto)
- Number of registrations taken via the Internet (See Section Exams Registered by Internet in Appendix A attached hereto)
- Number of registrations taken at testing centers (See Section Exams Registered On-Site in Appendix A attached hereto)
- Number of exams delivered. (See Section Exams Delivered in Appendix A attached hereto)

### 18.0 FINANCIAL OVERVIEW

ATA will provide financial reporting on a monthly basis as part of the obligations by ATA towards MCCL. ATA is fully responsible for all ATA tax liabilities (to include collection and remittance to the appropriate tax authorities), bad debt risk, and all risks associated with repatriation of money from affiliated locations. Failure to follow the requirements listed in this section, including, but not limited to, any failure to deliver compliant, accurate and timely reporting may be deemed breach of contract and MCCL and ATA may seek any or all remedies under the Master Service Agreement.

#### 18.1 ATA LICENSING FEES:

ATA shall pay to MCCL Licensing Fees for MCCL's license to ATA, as specified in Section 1.0 hereinabove. The amount of such licensing fees shall be due for each Candidate as described in ATA Price List (see Appendix F, ATA Price List) (the "Licensing Fees").

ATA shall remit to MCCL the full amount of the Licensing Fees, without any types of deduction or offset (including deduction for tax purposes).

If ATA chooses to offer a discount promotion for a MCP exam, ATA shall do so at ATA's expense and without affect to MCCL's remittance.

The payment of the Licensing Fees is provided for in Section 20.1 hereinbelow.

#### 18.2 OTHER BENEFITS

MCCL will fund the following benefits to ATA through the earlier of June 30, 2003 or until the Master Service Agreement is terminated:

Exhibit A

18.3 FORFEITURE REPORTS

ATA will produce a Forfeiture Report that supports the amount of forfeited exam funds remitted to MCCL. This report will detail those exams that are prepaid and were neither taken nor refunded. This report will also detail each Candidate who has paid and registered for an exam but did not take the exam and did not cancel the exam as described in Sections 4.6. This report should list each unredeemed exam registration number for "No Shows" and by PO number or voucher series (as appropriate) number for prepaid exams. Purchaser name and contact information shall also be included. See Appendix E, Report Key, for a sample of this report.

18.4 EXPIRED EXAMS

If ATA implements a business rule that limits the maximum period between initial exam registration and exam administration, and this rule results in a Candidate forfeiting fees, those forfeited funds will be treated as expired vouchers and the funds will be remitted to MCCL. ATA shall report this activity via the Forfeiture Report, per Appendix E, Report Key.

18.5 PRICING SCHEDULE MAINTENANCE

MCCL has created a price schedule, referred to as ATA Price List (Appendix F), which lists all royalties for products offered through the MOE Polytechnic Program. MCCL reserves the right to make any change(s) to Appendix F, ATA Price List at MCCL's own discretion. MCCL will communicate all changes to ATA thirty (30) calendar days prior to the date that the change(s) are to be implemented by ATA.

19.0 COLLECTIONS BY ATA

19.1 ACCEPTABLE PAYMENT METHODS

ATA will determine acceptable payment methods from each and all of the Customer (such as transactions with credit cards, bank orders and checks, purchase orders, etc.). MCCL accepts no liability for unpaid debts if ATA chooses to extend terms.

19.2 REMITTANCE TO MCCL

Regardless of ATA's ability to collect fees from each and all of the Customers, MCCL shall receive full remittance of the Licensing Fees as set forth in this SOW.

20.0 FINANCIAL REMITTANCES, REPORTS, AND INVOICES

AT THE END OF EACH FINANCIAL MONTH ATA WILL PROVIDE MCCL WITH FULL REPORTING OF ALL ACTIVITIES AS LISTED IN APPENDIX L, ATA REVENUE RECONCILIATION REPORTS. ALL SUCH REPORTING WILL BE PROVIDED IN THE FORM OF AND EXCEL WORKBOOK. ALL REPORTS SHALL BE TIMELY, COMPLETE AND ACCURATE.

20.1 INVOICING

ON RECEIPT OF THIS INFORMATION MCCL WILL GENERATE AN INVOICE FOR THE TOTAL LICENSING FEES DUE BASED ON THE NUMBER OF UNITS OF PRINTED COURSEWARE MATERIALS SHIPPED BY ATA DURING THE MONTH AND MCCL SHALL ISSUE THIS INVOICE TO ATA. ATA WILL BE FULLY RESPONSIBLE FOR AND LIABLE TO MCCL FOR THE PAYMENT IN FULL OF THE DUE AMOUNT. MCCL WILL NOT BE RESPONSIBLE FOR ANY INVOICES INCURRED BY ATA AND ATA'S PARTNERS.

20.2 WELCOME KITS

At the end of each financial month ATA will provide details to MCCL of the quantity of 'Welcome Kits' shipped, as listed in Appendix L, ATA Revenue Reconciliation Reports.

21.0 CERTIFICATES

Exhibit A

ATA shall perform at its own cost the following services in compliance with specifications mutually agreed upon by ATA and MCCL. Changes to requirements and specifications will be made through ATA Briefs as referred to in Section 11.

21.1 EXAM CERTIFICATES

For each course offered in the program with a MCP exam, ATA will provide Candidates who have successfully completed the course and exam an exam certificate, the form of which shall be determined by MCCL and may be

updated from time to time at MCCL's sole discretion.

The exam certificates will include at a minimum, the course name, student score report, security features and other features as mutually agreed upon by MCCL and ATA. Candidates will receive exam certificates for each course and exam completed.

ATA must provide sample exam certificates to MCCL for approval prior to delivery to Candidates.

#### 21.2 COURSE COMPLETION CERTIFICATES

For MCP courses offered under the MOE Polytechnic Program without a MCP exam, ATA will provide Candidates who have successfully completed the course with a course completion certification, the form of which shall be determined by MCCL and may be updated from time to time at MCCL's sole discretion.

The course completion certificate will include at a minimum the course name, student name and other features as mutually agreed upon by MCCL and ATA.

ATA must provide sample course completion certificates to MCCL for approval prior to delivery to Candidates.

#### 21.3 CERTIFICATION WELCOME KITS

For Candidates who have successfully completed their first MCP exam or reach an advanced certification such as MCSE, MCSA, MCDBA, MCAD, MCSA or other certifications specified by MCCL, ATA shall provide each of such Candidates a welcome kit.

The contents of the welcome kit will include at a minimum, a certificate, MCP program guide, welcome letter and other features as mutually agreed upon by MCCL and ATA.

ATA must provide sample welcome kits to MCCL for approval prior to shipments to Candidates.

#### 22.0 LIST OF APPENDIXES

Appendix A. KPI Reporting Requirements

Appendix B. MCP Customer Service Calls

Appendix C. Missing Exam Information and Data Feed Process

Appendix D. ATA Exam Results Import Formats

Appendix E. Report Key

Appendix F. ATA Price List

Appendix G. Independent Contractor Agreement

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#### Exhibit A

Appendix H. MCCL Fiscal Calendar, FY/2003-4

Appendix I. Standard Publishing Schedule

Appendix J. NDA

Appendix K. MCP Exam Provider Logo Usage Guidelines

Appendix L. ATA Revenue Reconciliation Reports

#### 23.0 INCORPORATION

This SOW and its Appendices attached hereto are an indispensable part of the Master Service Agreement and further provide the rights and obligations of MCCL and ATA. All the terms and conditions of the Master Service Agreement, unless further specified herein, are therefore deemed as having been incorporated into this SOW and its Appendices and shall apply to this SOW and its Appendices.

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#### Exhibit A

IN WITNESS WHEREOF, MCCL and ATA have entered into this SOW on the date first set forth above.

(CHINESE CHARACTERS)  
MICROSOFT (CHINA) CO., LTD.

(CHINESE CHARACTERS)  
ATA TESTING AUTHORITY, BEIJING CO., LTD.

----- Signature	----- Signature
----- Name (Print)	----- Name (Print)
----- Title	----- Title
----- Date	----- Date

APPENDIX A TO EXHIBIT A

This Key Performance Indicators ("KPIs") is attached hereto as Appendix A to the Exhibit A Statement of Work ("SOW") of the Master Services Agreement entered into by and between (CHINESE CHARACTERS) Microsoft (China) Co., Ltd. and (CHINESE CHARACTERS) ATA TESTING AUTHORITY, BEIJING CO., LTD. ("ATA") on May 16, 2003. This KPIs may be updated by Microsoft from time to time and ATA shall obey the KPIs in accordance with the Master Services Agreement and SOW.

The term "customer" and "candidate" provided in this KPIs shall have the same meaning as the "Candidate" as defined in the SOW.

APPENDIX A TO EXHIBIT A

(WORLDWIDE OPERATIONS LOGO)

KPI REPORTING REQUIREMENTS  
WORLDWIDE PROGRAMS

KEY PERFORMANCE INDICATORS - KPIS  
Glossary

Worldwide Programs - KPIS

GLOSSARY

REVISION 1 - SUMMARY

INTRODUCTION

Below is a summary of the changes made to the KPI Glossary. It is strongly recommended that vendors review the sections and specific metrics that are specific to their businesses to ensure that they understand the definitions and any changes that are not described in detail below. This is also true for the KPI Reporting Requirements document as there are changes to the region hierarchy and Measurement Codes.

EXTERNAL CUSTOMER SATISFACTION (not applicable to vendors)

The KPI for this measurement is no longer based on a single question about the customer's satisfaction with the overall service received from Microsoft. WPO's external customer satisfaction measurement is now based on an average of 4 "rep attributes".

ORDER FILL RATE

This metric only measures "compliant" order lines, i.e. those order lines that include all of the necessary information for the product to be fulfilled. In the new definition, orders for product that have not been released to manufacturing are not compliant. Therefore the measurement does not reflect RTM issues, however Order Fill Rate does continue to be impacted by backorders resulting from poor forecasting by Microsoft or the vendor, supplier problems, or other issues within WPO's control.

PERFORMANCE CONSOLIDATION

Microsoft consolidates performance to the region and often the WPO level (Example: total Order Fill Rate for North America across all programs). To ensure that this consolidation is calculated correctly, Microsoft needs the common denominator used to calculate the metric in addition to the metric itself. For example, Phone Service Level is the number of calls answered within a specified time period in relation to the total number of calls offered. Microsoft needs the total number of calls offered to consolidate one program's performance with that of other programs. To accomplish this Calls Offered and Compliant Order Lines Received have been added as new metrics. These are mandatory for vendors reporting Phone Service Level and Order Fill Rate respectively.

DEVELOPER METRICS

This group of measurements that are specific to the MSDN and TechNet programs have been added to the KPI Glossary, although many vendors already report these today. Some Developer Metrics have been added and others discontinued. Please recognize that an important change has been made as these metrics measure the number of subscriptions and not the number of subscribers as was the case with

some of these metrics in the past.

#### OTHER NEW METRICS

The following metrics have been added to the glossary: Average Hold Time, Compliant Order Percentage, Calls Answered - IVR, Outbound Calls, Average Calls Per Day, Order Fill Rate - MS Dictated Hold, Longest Time to Order Fill, Shipping Issues as % of Carrier Shipments - Due, Beta CD Volumes, MSN Volumes and some Exam Metrics and Volumes. Please reference the Required Metrics Matrix to find out which of these apply to each vendor.

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#### DELETED METRICS

The following metrics were deleted from the glossary or the original Developer Metrics definitions: Obsolescence Units, Events Metrics, End Item SKUs Handed Off, BOMs Frozen X Days Late, RTM Complete X Days Late, Forecast Release X Days Late, Forecasted Quantities by End Item SKU, Manufactured Quantities by End Item SKU, Ordered Quantities by End Item SKU, Disks Replicated, Paid Subscriptions, and Subscriber Retention.

#### LEGEND

On page 8 is a legend to better explain the glossary's format and language.

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LEGEND

PURPOSE--The "Purpose" describes what activity or process Microsoft is measuring with the respective metric.

DEFINITION

- The "Definition" is a short explanation of the metric and how it should be measured.

CALCULATION

The "Calculation" is a mathematical representation of the metric and exactly how it should be calculated.

- Additional information about the calculation and definitions for terms used in the calculation are outlined in this section.

FREQUENCY--The "Frequency" describes how often this metric should be reported to Microsoft. Usually, this distinguishes whether the metric should be reported both weekly and monthly or just monthly. Activity should always be reported for Microsoft's fiscal periods.

BENCHMARK - The "Benchmark" represents Microsoft's desired service level. For metrics that are reported as a percentage, the Benchmark will often dictate the denominator in the calculation. For Example: Phone Service Level measures the number of calls answered within a specified time period. This specified time period is described in the Benchmark. Many metrics' Benchmarks vary by region and program. In these cases the Benchmark should be communicated by the Microsoft Vendor Account Manager. Metrics that measure volumes and not performance do not have Benchmarks.

MEASUREMENT TRAPS

- "Measurement Traps" describe incorrect ways to measure the respective metric. When calculating the metric the vendor should ensure that they are NOT following any of these practices.

OTHER NOTES (not part of the glossary format)

- WPO = Worldwide Programs Operations
- MS = Microsoft

TOP KPIS - PERFORMANCE

EXTERNAL CUSTOMER SATISFACTION WITH REP

PURPOSE - Measure external customers' satisfaction with the quality of service received during a call to Microsoft

DEFINITION

- SATISFIED: The percentage of respondents whose average score indicates satisfaction.
- DISSATISFIED: The percentage of respondents whose average score indicates dissatisfaction.

CALCULATION

- SATISFIED:  
 Number of respondents whose average score from the rep attribute questions is 7 or greater  
 Number of respondents to complete a survey
- DISSATISFIED:  
 Number of respondents whose average score from the rep attribute questions is 3 or lower  
 Number of respondents to complete a survey

- This metric measures customers' responses to the following rep attributes:
  - Call Resolution
  - Professionalism/Communication Skills
  - Product/Program Knowledge
  - Speed of Service (Hold Time/Rep Efficiency)

These rep attribute questions ask specifically about processes that are managed by WPO and its vendors (rep performance, etc.). This metric should not measure responses about program content, business rules established by the program owner, or other elements outside of WPO's control.

- Customers are asked to respond to the rep attribute questions on a 9 point scale. "9" indicates that they completely agree that the statement describes their experience and "1" indicates that they do not agree at all.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY-- MS Fiscal Month

BENCHMARK - Satisfied: 85%, Dissatisfied 5%

MEASUREMENT TRAPS

- Scoring on questions other than the rep attributes selected to measure WPO's performance.

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- Not using a 9 point scale.
- Allowing vendors to pre-select or filter the list of customers before they are given to the survey company.

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#### PHONE SERVICE LEVEL

PURPOSE--Measure phone response time related to live agents

DEFINITION

- The percentage of inbound calls answered by a live rep within "y" seconds of the time the call enters the live rep queue in relation to the number of total calls offered to the live rep queue.

CALCULATION

$$\frac{\text{Number of calls answered by a live rep within "y" seconds of entering the live rep queue}}{\text{Total number of calls offered to the live rep queue}}$$

- Live rep queue = post-messaging and post-IVR
- Total number of calls offered includes all abandons within the live rep queue. See the Calls Offered metric definition.
- Should be system generated via ACD software or a consistent process that is auditable
- This should be calculated at the lowest level of available detail in regards to program, country, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x% in y seconds (see statement of work or Microsoft Vendor Account Manager)

MEASUREMENT TRAPS

- Dividing by total calls answered, rather than total calls offered.
- Allowance for abandons in first "y" seconds within the live rep queue, rather than including all abandons within the live rep queue.
- Adding estimated time for messaging to contractual target, rather than starting clock at live rep queue and measuring pure response time.
- Including IVR response time in numerator, rather than live rep queue only.
- Including IVR total calls offered in denominator, rather than live rep

queue only.

- Including voicemail response in numerator

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#### ORDER FILL RATE

PURPOSE-- Measure overall WPO fulfillment performance. This represents WPO's ability to accept orders and fulfill product in a timely manner per specific business requirements.

#### DEFINITION

- The percentage of total compliant order lines fulfilled within y days
- This includes orders that were delayed or backordered as a result of WPO or its vendors.

#### CALCULATION

Number of compliant order lines received workday 0 and  
shipped within "y "days  
Number of compliant order lines received workday 0

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Order lines that include all of the required information but are for product that is backordered because of poor forecasting or supplier problems ARE COMPLIANT.
- For those vendors that report more than one of the following Order Fill Rate metrics, this metric should represent a weighed average of those metrics:
  - Order Fill Rate - One-Off or Welcome-Kit
  - Order Fill Rate - Subscription/Monthly Mailer
  - Order Fill Rate - Expedite/Rush Orders
  - Order Fill Rate - Replacement Parts/Reships
  - Order Fill Rate - Microsoft Dictated Hold
- This should be calculated at the lowest level of available detail in regards to program, country, and MS region.

#### FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK -x % in y days. (see statement of work or Microsoft Vendor Account Manager)

- Order lines received workday 0 and shipped workday 0 = same day.
- Order lines received workday 0 and shipped workday 1 = 1 day

#### MEASUREMENT TRAPS

- Excluding order lines that were not shipped because the product was backordered, i.e. poor forecasting or problems with a supplier
- Measuring workday 0 from the packslip print instead of actual order entry

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- Measuring workday 0 from the third-party feed to fulfillment center, rather than capturing actual front-end order date

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#### DISTRIBUTION LEAD TIME PERFORMANCE

PURPOSE-- Measure timeliness of delivery from shipment pick-up to consignee

#### DEFINITION

- Percentage of shipments delivered to consignee within the quoted distribution time, including ACTUAL domestic transit, international transit, carrier performance, and customs factors.
- Consignee = "ship to" party as reflected on the airway bill

## CALCULATION

Number of carrier shipments that are due within the reporting period  
and WERE DELIVERED TO THE CONSIGNEE WITHIN THE QUOTED DISTRIBUTION TIME  
Total number of carrier shipments due to the consignee during the reporting  
period

- See Carrier Shipments - Due definition page.
- Distribution Lead Time Performance should be reported based on due date. Although carrier shipments may have been delivered prior to the reporting period in which they were due, they should be measured and reported based on due date.
- This should be calculated at the lowest level of available detail in regards to program and region.
- The Quoted Distribution Time is established by Microsoft.

## DISTRIBUTION FLOW

Dist Whse > Dom Trans > Intl Gateway > Intl Trans > Intl Customs > Dom Trans > Consignee

- - Distribution Warehouse = point at which shipment originates
- - Domestic Transportation = transit from fulfillment warehouse to international port of export/gateway
- - International Gateway = point where shipment/product is processed/cleared through local customs
- - International Transportation = transit from international port of export/gateway to international port of entry
- - International Customs = transition point at port of entry where title and liability of shipment transfers from the shipper to the consignee
- - Domestic Transportation in-country = delivery to end user/consignee
- - Consignee = "ship to" party as reflected on the airway bill

## FREQUENCY--MS Fiscal Month

BENCHMARK - 95% of shipments delivered to the consignee within the quoted distribution time

## MEASUREMENT TRAPS

- - Measuring transit time only, rather than full distribution process.

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- - Measuring delivery to customs or an alternate consignee rather than delivery to the consignee as reflected on the airway bill.
- - Measuring shipments picked-up or delivered during a reporting period rather than those due during the reporting period.

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## OBSOLESCENCE

PURPOSE-- Measure forecasting accuracy through Microsoft authorized scrap

## DEFINITION

- Total dollars related to measurable units scrapped and obsolete inventory in relation to total standard product costs associated with all products produced.

## CALCULATION

Obsolete and Scrapped Inventory Expense  
Total Product Costs

- This measurement is calculated using information provided from the WPO Business Stream, by stream and region.
- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Quarter - Year to Date

BENCHMARK - 4%

## MEASUREMENT TRAPS

- Excluding components
- Including non-authorized units
- Reporting in local currency
- Excluding disposal cost, transportation, etc.

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TOP KPIS - VOLUMES

17

CALLS ANSWERED

PURPOSE-- Measure volume of inbound calls.

DEFINITION

- Inbound calls answered by a live rep and inbound calls completed in an IVR

CALCULATION

Count of inbound calls answered by a live rep + inbound calls completed in an IVR

- If an IVR is not used, then this metric becomes purely a count of inbound calls answered by a live rep.
- Calls completed in an IVR represent calls where the customer chose at least one option in the IVR routing system. This does not include calls that were abandoned during the first routing message. For voice mail systems that do not support multiple routing options a call that generates a message is considered "answered"; a call that does not is abandoned and not counted in this metric.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting calls offered rather than calls answered
- Including outbound calls, rather than inbound only
- Double counting internal transfers/escalations
- Excluding IVR calls completed
- Counting calls that were abandoned during or before the first routing message in an IVR

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CALLS OFFERED

PURPOSE-- Measure volume of inbound calls offered to the live rep queue

DEFINITION

- Inbound calls offered to the live rep queue

CALCULATION

Count of inbound calls offered to a live rep queue

- Calls offered represents all calls, answered or not. This should be measured from the earliest indication that a call has reached the live rep queue.
- This should be the same measurement that is used to calculate Phone Service Level and other phone metrics that use "calls offered". Microsoft will use this information to aggregate phone service level performance.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Counting calls answered rather than calls offered
- Including outbound calls, rather than inbound only
- Double counting internal transfers/escalations
- Including IVR calls offered
- Excluding calls that were abandoned during or before the live rep queue

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#### PHONE ORDERS ENTERED

PURPOSE-- Measure volume of orders received via phone or IVR.

#### DEFINITION

- Orders received via phone or IVR and entered into an order entry system.

#### CALCULATION

Count of compliant orders received via phone and IVR and entered into an order entry system.

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Excludes cycle pulls or downloads for subscription welcome kits, monthly mailers, or pid activations
- Includes supplemental and replacement parts for subscription programs
- This should be calculated at the lowest level of available detail in regards to program and region.
- For Microsoft developer programs, MSDN and TechNet, this includes any transactions that trigger payment or subscriber information processing. Examples: Renewals, Upgrades, Cancellations, Activations, Pack-Ship Changes, Re-Ships, and Returns.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Counting orders shipped, rather than orders entered
- Excluding IVR orders entered
- Counting non-compliant orders
- Counting cycle pulls or downloads for subscription programs

#### MAIL/FAX ORDERS ENTERED

20

PURPOSE-- Measure volume of orders received via mail or fax.

#### DEFINITION

- Orders received via mail or fax and keyed into order entry system

#### CALCULATION

Count of compliant orders received via mail or fax and entered into order entry system

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Excludes cycle pulls or downloads for subscription welcome kits, monthly mailers, or pid activations
- Includes supplemental and replacement parts for subscription programs

- This should be calculated at the lowest level of available detail in regards to program and region.
- For Microsoft developer programs, MSDN and TechNet, this includes any transactions that trigger payment or subscriber information processing. Examples: Renewals, Upgrades, Cancellations, Activations, Pack-Ship Changes, Re-Ships, and Returns.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting orders shipped, rather than orders entered
- Counting mail/fax orders received, rather than mail/fax orders entered
- Counting non-compliant orders
- Counting cycle pulls or downloads for subscription programs

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INTERNET ORDERS ENTERED

PURPOSE-- Measure volume of orders submitted via the internet/web.

DEFINITION

- Orders submitted via internet/web and downloaded/keyed into order entry system

CALCULATION

Count of compliant orders received via internet/web and downloaded/keyed into order entry system

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Excludes cycle pulls or downloads for subscription welcome kits, monthly mailers, or pid activations
- Includes supplemental and replacement parts for subscription programs
- This should be calculated at the lowest level of available detail in regards to web site, program and region.
- For Microsoft developer programs, MSDN and TechNet, this includes any transactions that trigger payment or subscriber information processing. Examples: Renewals, Upgrades, Cancellations, Activations, Pack-Ship Changes, Re-Ships, and Returns.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting orders shipped, rather than orders entered
- Counting web/internet orders as download, rather than as internet orders
- Counting email orders as internet orders, rather than as email orders
- Counting non-compliant orders
- Counting cycle pulls or downloads for subscription programs

EMAIL ORDERS ENTERED

22

PURPOSE-- Measure volume of orders received via email.

DEFINITION

- Orders received via email and downloaded/keyed into order entry system

CALCULATION

Count of orders received via email and downloaded/keyed into order entry system

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Excludes cycle pulls or downloads for subscription welcome kits, monthly mailers, or pid activations
- Includes supplemental and replacement parts for subscription programs
- This should be calculated at the lowest level of available detail in regards to web site, program and region.
- For Microsoft developer programs, MSDN and TechNet, this includes any transactions that trigger payment or subscriber information processing. Examples: Renewals, Upgrades, Cancellations, Activations, Pack-Ship Changes, Re-Ships, and Returns.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting orders shipped, rather than orders entered
- Counting email orders as internet orders, rather than as email orders
- Counting non-compliant orders
- Counting cycle pulls or downloads for subscription programs

DOWNLOAD ORDERS ENTERED

23

PURPOSE-- Measure orders entered received via tape/feed from non-internet.

DEFINITION

- Orders received via tape/feed from non-internet source and downloaded/entered into order entry system

CALCULATION

Count of orders received via download from non-internet source and downloaded/entered into order entry system

- Excludes cycle pulls or downloads for subscription welcome kits, monthly mailers, or pid activations
- Includes supplemental and replacement parts for subscription programs
- This should be calculated at the lowest level of available detail in regards to program and region.
- For Microsoft developer programs, MSDN and TechNet, this includes any transactions that trigger payment or subscriber information processing. Examples: Renewals, Upgrades, Cancellations, Activations, Pack-Ship Changes, Re-Ships, and Returns.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting orders shipped, rather than orders entered
- Counting web/internet orders as download, rather than as internet orders
- Counting cycle pulls or downloads for subscription programs

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TOTAL ORDERS ENTERED

PURPOSE-- Measure volume of total orders entered

DEFINITION

- Sum of all order types. Phone + Mail/Fax + Internet + Email + Download.

CALCULATION

Sum of all compliant orders entered



- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Excludes cycle pulls or downloads for subscription welcome kits, monthly mailers, or pid activations
- Includes supplemental and replacement parts for subscription programs
- This should be calculated at the lowest level of available detail in regards to web site, program and region.
- For Microsoft developer programs, MSDN and TechNet, this includes any transactions that trigger payment or subscriber information processing. Examples: Renewals, Upgrades, Cancellations, Activations, Pack-Ship Changes, Re-Ships, and Returns.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting orders shipped, rather than orders entered
- Excluding an order type
- Counting non-compliant orders

25

#### UNITS SHIPPED TO END-CUSTOMER

PURPOSE-- Measure the quantity of units shipped to an End-Customer.

DEFINITION

- Total quantity of confirmed End Items shipped to End-Customers

CALCULATION

Sum of shipped quantities by end item SKU that are shipped directly to an End-Customer

- End-Customer represents an enduser or an MS subsidiary at which WW Programs has fulfilled its obligation to fulfill the product. End-Customer does not include a vendor's regional distribution facility from which the product is shipped to endusers.
- End Items are measured by Financial End Item SKU.
- This measurement represents the transaction where revenue is recognized.
- A reship counts as 1 end item SKU shipped
- This should be calculated at the lowest level of available detail in regards to campaign, country and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK -n/a

MEASUREMENT TRAPS

- Reporting by SKU, rather than summary of all SKUs
- Summing at a level different than end item SKU
- Excluding reshops, comped shipments, replacement parts, supplemental parts, marketing parts from count
- Reporting units at a program level and not broken out by campaign
- Including shipments to regional vendor distribution facilities

#### COMPLIANT ORDER LINES RECEIVED

26

PURPOSE-- Measure the quantity of compliant order lines received.

DEFINITION

- Total quantity of compliant order lines received.

## CALCULATION

Sum of compliant order lines received that generate a fulfillment request

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Order lines that include all of the required information but are for product that is backordered because of poor forecasting or supplier problems ARE COMPLIANT.
- This should be the same measurement that is used to calculate Order Fill Rate and other fulfillment or front-end metrics that use "compliant order lines". Microsoft will use this information to aggregate fulfillment performance.
- This should be calculated at the lowest level of available detail in regards to campaign, country and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK -n/a

MEASUREMENT TRAPS

- Reporting the number of orders and not order lines
- Reporting non-compliant order lines

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## CARRIER SHIPMENTS - DUE

PURPOSE-- Measure the volume of shipments due to the consignee.

DEFINITION

- Count of shipments due to the consignee during the reporting period.

CALCULATION

Count of shipments due to the consignee during the reporting period

- Shipment = Single airway bill
- Due date is dictated by the quoted distribution time for the individual shipment
- Includes shipments to a single consignee and bulk shipments to Microsoft subsidiaries, distis, etc.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting end item SKUs, rather than shipments as measured by airway bills.
- Counting shipments picked-up, rather than shipments due.
- Counting shipments delivered, rather than shipments due.

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## ACTIVE SUBSCRIPTIONS

PURPOSE-- Measure volume of active subscriptions in a program.

DEFINITION

- The number of active subscriptions in the program at a point in time

CALCULATION

Count of active subscriptions as of Friday of each fiscal week or month

- This should only be calculated for programs that have a subscriber or member base. It should not be calculated for pick/pack/ship programs on endusers serviced.
- This should be calculated at the lowest level of available detail in

regards to program and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Applying this metric to pick/pack/ship programs
- Counting new subscriptions during the month, rather than total active subscriptions at a point in time
- Not accounting for cancelled or expired subscriptions
- Not giving country visibility

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SUPPORTING METRICS - FRONT END PERFORMANCE

30

ABANDON RATE - ABSOLUTE

PURPOSE-- Measure calls lost or dropped during any part of the call process

DEFINITION

- The percentage of inbound calls that are lost or dropped in the messaging system, IVR, or live rep queue before the caller receives a live response or has been serviced by an IVR option in relation to the number of total calls.

CALCULATION

Number of calls abandoned from live rep queue + messaging + IVR  
Total number of calls offered

- Should be system generated via ACD software or a consistent process that is auditable
- This should be calculated at the lowest level of available detail in regards to program, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Dividing by total calls answered, rather than total calls offered.
- Excluding hangups in first x seconds.
- Counting calls abandoned in live rep queue only.
- Counting only total calls offered to the live rep queue in denominator, rather than all calls offered.

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ABANDON RATE - LIVE REP QUEUE

PURPOSE-- Measure calls lost or dropped in live rep queue prior to pickup by a live agent.

DEFINITION

- The percentage of inbound calls that are lost or dropped in the live rep queue before the caller receives a live response in relation to the number of total calls offered to the live rep queue.

CALCULATION

Number of calls abandoned in the live rep queue  
Total number of calls offered to the live rep queue

- Live rep queue = post-messaging and post-IVR
- Should be system generated via ACD software or a consistent process that is auditable
- This should be calculated at the lowest level of available detail in regards to program, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - 4%

MEASUREMENT TRAPS

- Dividing by total calls answered, rather than total calls offered.
- Excluding hangups in first x seconds within the live rep queue, rather than including all abandons within the live rep queue.
- Including calls abandoned within IVR/messaging in numerator, rather than calls abandoned in live rep queue only.
- Including total calls offered to IVR/messaging in denominator, rather than live rep queue only.

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AVERAGE CALL LENGTH

PURPOSE--Measure average call length

DEFINITION

- Average time per call that elapsed between rep answer and rep hangup. Measured in minutes and seconds.

CALCULATION

Total talk time + total hold time (after initial rep response)  
Total calls answered in live rep queue

- Total hold time in this measurement refers to hold time after the caller has reached a rep, i.e. hold time between transfers, etc.
- Minutes should be reported in decimal places. Example 6 minutes and 30 seconds should be reported as "6.50".
- Should be system generated via ACD software or a consistent process that is auditable
- This should be calculated at the lowest level of available detail in regards to campaign, program, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Reporting minimum time elapsed
- Reporting maximum time elapsed
- Not including all queues relevant to program
- Excluding customer service queue from reporting
- Counting talk time only, rather than including talk time + hold time after rep response

AVERAGE HOLD TIME

33

PURPOSE--Measure average hold time

DEFINITION

- Average time per call that elapsed between entering the live rep queue and rep answer. Measured in minutes and seconds.

CALCULATION

Total time between the live rep queue and rep answer for all calls answered in the live rep queue  
Total calls answered in live rep queue

- This does not measure hold time related to IVRs or other messaging systems that does not result in talking to a live rep.
- Minutes should be reported in decimal places. Example 6 minutes and 30 seconds should be reported as "6.50".
- Should be system generated via ACD software or a consistent process that is auditable
- This should be calculated at the lowest level of available detail in regards to campaign, program, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Reporting minimum time elapsed
- Reporting maximum time elapsed
- Not including all queues relevant to program
- Excluding customer service queue from reporting
- Counting talk time only

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MAIL/FAX PROCESSING RATE

PURPOSE-- Measure response time to mail pieces and faxes

DEFINITION

- The percentage of mail pieces and faxes requiring manual order entry that are received workday 1 and processed workday y by 12:00 midnight in relation to total mail pieces and faxes received workday 1 by 12:00 midnight

CALCULATION

Mail pieces + faxes received workday 1 and processed workday y by 12:00 midnight  
Total mail pieces + faxes received workday 1 by 12:00 midnight

- Mail and Fax pieces received workday 1 and processed workday 1 by 12:00 midnight count as same day. Mail and Fax pieces received workday 1 and processed workday 2 by 12:00 midnight count as 24 hours or one day.
- This measurement includes complaint and not-compliant orders.
- Processed = order entry, non-compliance procedure enacted, or order confirmation sent.
- This should be calculated at the lowest level of available detail in regards to program and MS region.
- Mail pieces include activation cards or equivalent information for the MSDN and TechNet programs.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x% in y days (see statement of work or Microsoft Vendor Account Manager)

MEASUREMENT TRAPS

- Not date stamping/recording all pieces with date they arrived via mail, fax or download and allowing them to pile up unstamped.
- Not capturing date received in order entry system. Not capturing non-compliant orders in calculation.
- Counting backlog in numerator for subsequent days measurement.
- Mistaking requirement of weekly performance reporting for a service level of 5 days, rather than reporting a weekly performance to contractual standard of y days.
- Averaging daily performance, rather than re-summing all mail and fax received workday 1 and processed workday y by 12:00 midnight in numerator and re-summing total mail and fax received for the week in denominator.

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APPLICATION PROCESSING RATE

PURPOSE-- Measure response time to applications

DEFINITION

- The percentage of applications received by download, web, mail, or fax requiring manual order entry that are received workday 1 and processed workday y by 12:00 midnight in relation to total mail pieces and faxes received workday 1 by 12:00 midnight

CALCULATION

Applications received workday 1 and processed workday y by 12:00 midnight  
Total mail pieces + faxes received workday 1 by 12:00 midnight

- Applications received workday 1 and processed workday 1 by 12:00 midnight count as same day. Mail and Fax pieces received workday 1 and processed workday 2 by 12:00 midnight count as 24 hours or 1 day.
- Processed = order entry or non-compliance procedure enacted.
- This measurement includes both compliant and non-compliant applications.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x% in y days (see statement of work or Microsoft Vendor Account Manager)

MEASUREMENT TRAPS

- Not date stamping all applications with the date they arrived via mail, fax, or download and allowing them to pile up unstamped.
- Not capturing date received in application entry system. Not capturing non-compliant applications in calculation.
- Counting backlog in numerator for subsequent days measurement.
- Mistaking requirement of weekly performance reporting for a service level of 5 days, rather than reporting a weekly performance to contractual standard of y days.
- Averaging daily performance, rather than re-summing all applications received workday 1 and processed workday y by 12:00 midnight in numerator and re-summing total applications received for the week in denominator.

36

#### COMPLIANT ORDER PERCENTAGE

PURPOSE-- Measure the percentage of compliant orders received

DEFINITION

- The percentage of compliant orders received in relation to the total number of orders received.

CALCULATION

Number of Compliant Orders Received  
Total Number of Orders Received

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Order lines that include all of the required information but are for product that is backordered because of poor forecasting or supplier problems ARE COMPLIANT.
- This should be calculated at the lowest level of available detail in regards to program, country, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Measuring orders that did not include valid payment, credit card approval, etc.
- Including orders where the customer had to be contacted to complete the order information.

37

#### MANUAL PROCESSING RATE ON WEB ORDERS

PURPOSE-- Measure clerical response time to manual order entry/processing of web orders

DEFINITION

- The percentage of web orders requiring manual processing that were submitted by enduser workday 1 and manually processed workday y by 12:00 midnight in relation to total web orders requiring manual processing submitted by enduser workday 1 by 12:00 midnight

#### CALCULATION

Web Orders submitted workday 1 and manually processed workday y by 12:00 midnight  
 Total web orders submitted workday 1 by 12:00 midnight

- Web orders submitted workday 1 and processed workday 1 by 12:00 midnight count as same day. Web orders submitted workday 1 and processed workday 2 by 12:00 midnight count as 24 hours or 1 day.
- Processed = order entry or non-compliance procedure enacted.
- This measurement includes compliant and non-compliant orders.
- Submitted by enduser = ms.com submit date
- This should be calculated at the lowest level of available detail in regards to web site and MS region.

#### FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x% in y days (see statement of work or Microsoft Vendor Account Manager)

#### MEASUREMENT TRAPS

- Measuring against date received by vendor, rather than date submitted by enduser.
- Measuring against order entry date, rather than date submitted by enduser.
- Not capturing non-compliant orders in calculation.
- Counting backlog over y days as processed in numerator for subsequent days measurement.
- Mistaking requirement of weekly performance reporting for a measurement of 5 days, rather reporting a weekly performance to contractual standard of y days.
- Averaging daily performance, rather than re-summing all web orders received workday 1 and processed workday y by 12:00 midnight in numerator and re-summing total web orders received for the week in denominator.
- Excluding Saturday and Sunday from calculation.

38

#### FREE FLOW EMAIL PROCESSING RATE

PURPOSE-- Measure rep response time to free flow emails

#### DEFINITION

- The percentage of email requests received workday 1 and responded to workday y by 12:00 midnight in relation to total emails received workday 1 by 12:00 midnight

#### CALCULATION

Email requests received workday 1 and responded to workday y by 12:00 midnight  
 Total email requests received workday 1 by 12:00 midnight

- Responded to = Order entry, non-compliance procedures enacted, or response to inquiry sent. Does not include auto reply.
- Excludes eforms received by vendors
- Email requests received workday 1 and resolved workday 1 by 12:00 midnight count as same day. New email requests received workday 1 and resolved workday 2 by 12:00 midnight count as 24 hours or one day.
- This should be calculated at the lowest level of available detail in regards program and MS region.

#### FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x% in y days (see statement of work or Microsoft Vendor Account Manager)

#### MEASUREMENT TRAPS

- Measuring receipt as date of first processing, rather than date received in inbox

- Counting backlog over y days as resolved in numerator for subsequent days measurement.
- Averaging daily performance, rather than re-summing all new email requests received workday 1 and resolved workday y by 12:00 midnight in numerator and re-summing total new email requests received for the week in denominator.

39

#### EFORM PROCESSING RATE

PURPOSE-- Measure rep response time to eforms

#### DEFINITION

- The percentage of eforms received workday 1 and processed workday y by 12:00 midnight in relation to total eforms received workday 1 by 12:00 midnight

#### CALCULATION

Eforms received workday 1 and processed workday y by 12:00 midnight  
Total eforms received workday 1 by 12:00 midnight

- Processed = Order entry, non-compliance procedures enacted, or response to inquiry sent. Does not include auto reply.
- Excludes free flow emails
- Eforms received workday 1 and processed workday 1 by 12:00 midnight count as same day. Eforms received workday 1 and processed workday 2 by 12:00 midnight count as 24 hours or one day.
- This should be calculated at the lowest level of available detail in regards program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x% in y days (see statement of work or Microsoft Vendor Account Manager)

#### MEASUREMENT TRAPS

- Measuring receipt as date of first processing, rather than date received in inbox
- Counting backlog over y days as resolved in numerator for subsequent days measurement.
- Averaging daily performance, rather than re-summing all eforms received workday 1 and resolved workday y by 12:00 midnight in numerator and re-summing total eforms received for the week in denominator.

40

#### SUPPORTING METRICS - FRONT END VOLUMES

41

#### CALLS ANSWERED - LIVE REP IN IVR ENVIRONMENT

PURPOSE-- To segregate volume of calls answered by a live rep only, when both live rep and IVR exist.

#### DEFINITION

- Inbound calls answered by a live rep, either initially or as a transfer from the IVR.

#### CALCULATION

Count of inbound calls answered by a live rep

- If phone queue is purely live rep and no IVR, this metric should not be reported, default to Total Calls Answered metric which is categorized as a Top KPI.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a



MEASUREMENT TRAPS

- Counting calls offered rather than calls answered
- Including outbound calls, rather than inbound only
- Double counting internal transfers/escalations
- Including IVR calls completed

42

CALLS ANSWERED - IVR

PURPOSE-- Measure volume of inbound calls answered by an IVR.

DEFINITION

- Inbound calls completed in an IVR

CALCULATION

Count of inbound calls completed in an IVR

- Calls completed in an IVR represent calls where the customer chose at least one option in the IVR routing system. This does not include calls that were abandoned during the first routing message. For voice mail systems that do not support multiple routing options a call that generates a message is considered "answered"; a call that does not is abandoned and not counted in this metric.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting calls offered rather than calls answered
- Including outbound calls, rather than inbound only
- Double counting internal transfers/escalations
- Counting calls that were abandoned during or before the first routing message in an IVR

43

OUTBOUND CALLS

PURPOSE-- Measure volume of outbound calls.

DEFINITION

- Outbound calls made for Microsoft.

CALCULATION

Count of outbound calls made for Microsoft

- This measures the number contacts and does not include dials that did not result in a completed call script.
- This represents only calls made by the request of Microsoft and should not include calls made for personal or vendor related reasons.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting calls dialed rather than calls completed
- Including inbound calls, rather than outbound only

44

AVERAGE CALLS PER DAY

PURPOSE-- Measure volume of inbound calls, specifically for fiscal months that

vary in length

DEFINITION

- Average number inbound calls per day answered by a live rep and inbound calls completed in an IVR

CALCULATION

Count of inbound calls answered by a live rep + inbound calls completed in an IVR  
Sum of days in the reporting period

- If an IVR is not used, then this metric becomes purely a count of average inbound calls answered by a live rep.
- Calls completed in an IVR represent calls where the customer chose at least one option in the IVR routing system. This does not include calls that were abandoned during the first routing message. For voice mail systems that do not support multiple routing options a call that generates a message is considered "answered"; a call that does not is abandoned and not counted in this metric.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting calls offered rather than calls answered
- Including outbound calls, rather than inbound only
- Double counting internal transfers/escalations
- Excluding IVR calls completed
- Counting calls that were abandoned during or before the first routing message in an IVR

45

FREE FLOW INBOUND EMAILS RECEIVED

PURPOSE-- Measure volume of inbound free flow emails received.

DEFINITION

- Quantity of incoming orders and inquiries received via free flow email

CALCULATION

Count of incoming email orders received + Count of incoming email inquiries received

- Each incoming email receipt should be counted separately. Incoming forward, replies and emails regarding the same subject should be counted uniquely.
- Should be system generated via email software
- Excludes eforms
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting email orders only, and excluding inquiries
- Counting multiple email receipts from the same customer/on the same subject as one rather than counting each receipt individually
- Including outbound emails, rather than only counting inbound emails
- Including eforms

46

INBOUND EFORMS RECEIVED

PURPOSE-- Measure volume of inbound eforms

DEFINITION

- Quantity of incoming orders and inquiries received via eform

CALCULATION

Count of incoming eform orders received + Count of incoming eform inquiries received

- Each incoming eform receipt should be counted separately. Incoming forward, replies and eforms regarding the same subject should be counted uniquely.
- Should be system generated via email software
- Excludes free flow email
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting eform orders only, and other eform communication
- Counting multiple eform receipts from the same customer/on the same subject as one rather than counting each receipt individually
- Including outbound emails or eforms, rather than only counting inbound eforms
- Including inbound or outbound free flow email

47

FREE FLOW OUTBOUND EMAILS SENT

PURPOSE-- Measure volume of free flow outbound emails sent

DEFINITION

- Quantity of total free flow outbound emails sent including all emails sent to customers, internal vendor escalation, internal vendor inquiry, MS escalation, MS inquiry, forwards to other sources, etc. including those in response to eforms.

CALCULATION

Count of total free flow outbound emails sent

- Each outbound email sent should be counted separately. Outbound forward, replies and emails regarding the same subject should be counted uniquely.
- Excludes push-back emails
- Should be system generated via email software
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting outbound emails sent to customers only, and excluding internal/MS inquiries or escalations
- Counting multiple emails sent on the same subject as one rather than counting each email sent individually
- Including incoming emails, rather than only counting outbound emails sent
- Counting replies/forwards only, rather than counting emails initiated by vendor
- Including push-back emails

48

APPLICATIONS RECEIVED

PURPOSE-- Measure volume of applications received.

DEFINITION

- Quantity of applications received during the reporting period.

CALCULATION

Sum of all applications stamped or matched to existing members' records.

- An application is a request for enrollment or renewal in a specific Microsoft program.
- Stamped applications are for new enrollment that do not have a matching record in the application system.
- Matched applications are requests for renewal that have been paired with the member's information already in the application system.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Only reporting approved applications.
- Excluding applications that are not reconciled.

49

SUPPORTING METRICS - EXAM PERFORMANCE

50

EXAM SERVICE LEVEL

PURPOSE--Measure the timeliness of exams delivered to testing centers.

DEFINITION

- Exams delivered on time from exam service providers to testing centers.

CALCULATION

Number of correct exams delivered on or before scheduled registration time  
Total number of exams scheduled

- The scheduled registration time is the time that the customer has agreed to take the exam.
- Correct exams represent the same exam that the customer registered to take at that time.

FREQUENCY--MS Fiscal Month

BENCHMARK - 98% of all exams delivered on or before scheduled registration.

MEASUREMENT TRAPS

- Counting exams delivered in the denominator instead of exams scheduled
- Including incorrect exams in the numerator

51

EXAM DATA SENT - 72 HOURS

PURPOSE--Measure the timeliness of exam data returned to Microsoft.

DEFINITION

- Exam data returned to Microsoft within 72 hours in relation to the total number of exams delivered.

CALCULATION

Number of delivered exams for which the data was successfully returned  
to Microsoft within 72 hours  
Total number of exams delivered

- The time that the exam data is returned to Microsoft is measured by the date of the vendors' file transfer.

- If the file transfer was not successful because of an error on the part of the vendor, the affected data should not be included in the numerator.

FREQUENCY--MS Fiscal Month

BENCHMARK - 90%

MEASUREMENT TRAPS

- Counting exams scheduled in the denominator instead of exams delivered
- Including exam data that was not received successfully by Microsoft in the numerator.

52

#### EXAM DATA SENT - 120 HOURS

PURPOSE--Measure the timeliness of exam data returned to Microsoft.

DEFINITION

- Exam data returned to Microsoft within 120 hours in relation to the total number of exams delivered.

CALCULATION

Number of delivered exams for which the data was successfully returned to Microsoft within 120 hours  
Total number of exams delivered

- The time that the exam data is returned to Microsoft is measured by the date of the vendors' file transfer.
- If the file transfer was not successful because of an error on the part of the vendor, the affected data should not be included in the numerator.

FREQUENCY--MS Fiscal Month

BENCHMARK - 100%

MEASUREMENT TRAPS

- Counting exams scheduled in the denominator instead of exams delivered
- Including exam data that was not received successfully by Microsoft in the numerator.

53

#### SUPPORTING METRICS - EXAM VOLUMES

54

#### EXAMS DELIVERED

PURPOSE-- Measure volume of exams delivered

DEFINITION

- Exams delivered to a test center

CALCULATION

Count of exams delivered to a testing center and available for candidates

- This does not include resending the correct exam when the first exam made available to the candidate was the incorrect.
- This does not include a delivered exam when the candidate was not present to take the exam.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting exams that were delivered to the testing center but not available for the candidate, i.e. systems issues, etc.

- Counting exams that were not actually taken by a candidate.

55

#### EXAMS REGISTERED BY PHONE

PURPOSE-- Measure volume of exams registrations made by phone

#### DEFINITION

- Exams registrations made by phone

#### CALCULATION

Count of exams registrations taken by phone and recorded/entered into a registration system

- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Counting registrations that were made by a media other than phone.

56

#### EXAMS REGISTERED BY INTERNET

PURPOSE-- Measure volume of exams registrations made over the internet

#### DEFINITION

- Exams registrations made over the internet

#### CALCULATION

Count of exams registrations taken from the internet and recorded/entered into a registration system

- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Counting registrations that were made by a media other than the internet.

57

#### EXAMS REGISTERED ON-SITE

PURPOSE-- Measure volume of exams registrations made at a testing center

#### DEFINITION

- Exams registrations made at a testing center

#### CALCULATION

Count of exams registrations taken at a testing center and recorded/entered into a registration system

- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Counting registrations that were not made at a testing center.

58

#### TOTAL EXAMS REGISTERED

PURPOSE-- Measure volume of exams registrations

DEFINITION

- Exams registrations made at a testing center, by phone, and from the internet

CALCULATION

Count of exams registrations taken at a testing center, by phone, and from the internet and recorded/entered into a registration system

- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Excluding exam registrations take from one media.

59

SUPPORTING METRICS -FULFILLMENT PERFORMANCE

60

ORDER FILL RATE ONE-OFF OR WELCOME KIT

PURPOSE-- Measure WPO's ability to accept orders and fulfill product in a timely manner per specific business requirements, measured specific to one-offs and welcome kits

DEFINITION

- Total valid compliant order lines entered workday 0 by 12:00 midnight and shipped complete (picked up by carrier) workday y by 12:00 midnight in relation to total valid compliant order lines entered workday 0 by 12:00 midnight.

CALCULATION

Number or compliant order lines received workday 0 and shipped within specified y time period  
Total compliant order lines received workday 0

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Order lines that include all of the required information but are for product that is backordered because of poor forecasting or supplier problems ARE COMPLIANT.
- Order lines received workday 0 and shipped workday 0 = same day
- Order lines received workday 0 and shipped workday 1 = 1 day
- This should be calculated at the lowest level of available detail in regards to program, country, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x % in y days. (see statement of work or Microsoft Vendor Account Manager)

MEASUREMENT TRAPS

- Excluding order lines that were not shipped because the product was backordered, i.e. poor forecasting or problems with a supplier
- Measuring workday 0 from the packslip print instead of actual order entry
- Measuring workday 0 from the third-party feed to fulfillment center, rather than capturing actual front-end order date

61

ORDER FILL RATE SUBSCRIPTION/MONTHLY MAILER

PURPOSE -- Measure WPO's ability to accept orders and fulfill product in a timely manner per specific business requirements. Measured specific to subscription monthly mailers, such as autoships for Courseware, Interim &

Quarterlies for MSDN, Monthly MSDN and TechNet, and Update cycle for Select.

DEFINITION

- Total valid compliant order lines shipped starting scheduled ship day 1 through scheduled ship day y in relation to total valid compliant order lines entered from cycle pull.

CALCULATION

Total compliant order lines shipped through scheduled ship day y  
Total compliant order lines received from cycle pull

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Order lines that include all of the required information but are for product that is backordered because of poor forecasting or supplier problems ARE COMPLIANT.
- Order lines shipped workday 1 = 1 day
- Order lines shipped workday 2 = 2 days
- This should be calculated at the lowest level of available detail in regards to program, country, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x % in y days. (see statement of work or Microsoft Vendor Account Manager)

MEASUREMENT TRAPS

- Starting timing from day of cycle pull, rather than ship day 1.
- Excluding order lines that were not shipped because the product was backordered, i.e. poor forecasting or problems with a supplier

62

ORDER FILL RATE EXPEDITE/RUSH ORDERS

PURPOSE-- Measure WPO's ability to accept orders and fulfill product in a timely manner per specific business requirements, measured specific to expedite and rush orders.

DEFINITION

- Total valid compliant order lines entered workday 0 by 12:00 midnight and shipped complete (picked up by carrier) workday y by 12:00 midnight in relation to total valid compliant order lines entered workday 0 by 12:00 midnight.

CALCULATION

Total compliant order lines received workday 0 and shipped  
within specified y time period  
Total compliant order lines received workday 0

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Order lines that include all of the required information but are for product that is backordered because of poor forecasting or supplier problems ARE COMPLIANT.
- Order lines received workday 0 and shipped workday 0 = same day
- Order lines received workday 0 and shipped workday 1 = 1 day
- This should be calculated at the lowest level of available detail in regards to program, country, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x % in y days. (see statement of work or Microsoft Vendor Account Manager)

MEASUREMENT TRAPS

- Excluding order lines that were not shipped because the product was backordered, i.e. poor forecasting or problems with a supplier
- Measuring workday 0 from the packslip print instead of actual order



entry

- Measuring workday 0 from the third-party feed to fulfillment center, rather than capturing actual front-end order date

63

#### ORDER FILL RATE REPLACEMENT PARTS/RESHIPS

PURPOSE-- Measure WPO's ability to accept orders and fulfill product in a timely manner per specific business requirements, measured specific to replacement parts and reships.

#### DEFINITION

- Total valid compliant order lines entered workday 0 by 12:00 midnight and shipped complete (picked up by carrier) workday y by 12:00 midnight in relation to total valid compliant order lines entered workday 0 by 12:00 midnight.

#### CALCULATION

Total compliant order lines received workday 0 and shipped  
within specified y time period  
Total compliant order lines received workday 0

- Compliant order lines are those that meet all of the necessary requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.
- Order lines that include all of the required information but are for product that is backordered because of poor forecasting or supplier problems ARE COMPLIANT.
- Order lines received workday 0 and shipped workday 0 = same day
- Order lines received workday 0 and shipped workday 1 = 1 day
- This should be calculated at the lowest level of available detail in regards to program, country, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x % in y days. (see statement of work or Microsoft Vendor Account Manager)

#### MEASUREMENT TRAPS

- Excluding order lines that were not shipped because the product was backordered, i.e. poor forecasting or problems with a supplier
- Measuring workday 0 from the packslip print instead of actual order entry
- Measuring workday 0 from the third-party feed to fulfillment center, rather than capturing actual front-end order date

64

#### ORDER FILL RATE - MS DICTATED HOLDS

PURPOSE-- Measure WPO's ability to accept orders and fulfill product in a timely manner per specific business requirements, measured specific to product that Microsoft requests a hold to consolidate or hold to release.

#### DEFINITION

- Total valid compliant order lines entered workday 0 by 12:00 midnight and shipped complete (picked up by carrier) workday y by 12:00 midnight in relation to total valid compliant order lines entered workday 0 by 12:00 midnight.

#### CALCULATION

Number of compliant order lines received workday 0 and shipped  
within specified y time period  
Total compliant order lines received workday 0

- The specified y time period in this case is dictated by Microsoft for a specific purpose. For example, Microsoft may ask the fulfillment vendor to hold all shipments to a certain region until Thursday of each week to gain a distribution cost advantage. In this case, Thursday becomes the specified time period and all order lines that were received since the last shipment and shipped on the following Thursday are counted in the numerator above.
- Compliant order lines are those that meet all of the necessary

requirements for fulfillment. They include all of the needed information, approved payment, and are for a product that has been released to manufacturing. Order lines for new product are not compliant until the initial build for that product is complete.

- Order lines that include all of the required information but are for product that is backordered because of poor forecasting or supplier problems ARE COMPLIANT.
- Order lines received workday 0 and shipped workday 0 = same day
- Order lines received workday 0 and shipped workday 1 = 1 day
- This should be calculated at the lowest level of available detail in regards to program, country, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - x % in y days. (see Microsoft Vendor Account Manager and calculation notes above)

MEASUREMENT TRAPS

- Excluding order lines that were not shipped because the product was backordered, i.e. poor forecasting or problems with a supplier
- Measuring workday 0 from the packslip print instead of actual order entry

65

- Measuring workday 0 from the third-party feed to fulfillment center, rather than capturing actual front-end order date

66

#### LONGEST TIME TO ORDER FILL (TAIL)

PURPOSE-- Measure the longest time, in days, to fulfill every order.

DEFINITION

- Longest time period from each day's order entry to that same day's order lines shipping 100% complete.

CALCULATION

(Maximum time between order entry and shipment for any order line) -  
(Order Fill Rate target, commonly referred to as "y", for  
the respective product)

EXAMPLE: 100 Welcome Kit orders entered day 1. 95 fulfilled within 2 days; order fill rate target. Last order line fulfilled on the day 5. Longest Time to Order Fill = 3. 10,000 subscription orders entered day 1. 9900 subscription orders fulfilled by day 5; order fill rate target. Last subscription order fulfilled on day 11. Longest Time to Order Fill = 6. If both examples ship in the same reporting period, Longest Time to Order Fill to be reported is 6.

- Order lines received workday 0 and shipped workday 0 = same day.
- Order lines received workday 0 and shipped workday 1 = 1 day
- If the fulfillment of this order line bridges two or more reporting periods, its total time to fulfill should be included in the reporting period that it was shipped.
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - 1 Day

MEASUREMENT TRAPS

- Not measuring this metric on single order lines.
- Not reporting an order line that's time to fulfill bridged two or more reporting periods.
- Measuring order entry from the packslip print instead of actual order entry
- Measuring order entry from the third-party feed to fulfillment center, rather than capturing actual front-end order date
- Not subtracting the order fill rate target time period.

## INVENTORY TURNS

PURPOSE -- Measure how often the inventory "turns over" or how many times one month's inventory is sold in a year.

## DEFINITION

- The last three months' unit sales annualized in relation to the current month's ending inventory in units.

## CALCULATION

(The last three months' sales in units \* 4)  
The current month's ending inventory in units

- If this was to be calculated for April, it would be the number units sold in February, March, and April multiplied by four and divided by April's ending inventory in units.

FREQUENCY--MS Fiscal Month

BENCHMARK - x days (see statement of work or Microsoft Vendor Account Manager).

## MEASUREMENT TRAPS

- Not including the current month in the three months' unit sales.

## INVENTORY ACCURACY

PURPOSE -- Measure the accuracy of inventory tracking systems and controls.

## DEFINITION

- The number of units adjusted as the result of a physical inventory or cycle count in relation to the total number of units counted.

## CALCULATION

1 - (the gross number of units adjusted / the gross number of units counted)

- This is calculated from the results of a physical inventory or cycle count.
- The "gross number of units adjusted" represents the adjustment in units made to the books or inventory tracking system in order for it to match the number of units that were physically counted.
- The "gross number of units counted" represents the total number of units counted during the count.

FREQUENCY--MS Fiscal Month

BENCHMARK - 99%

## MEASUREMENT TRAPS

- Using data from an invalid physical inventory or cycle count.

## SUPPORTING METRICS -RELEASE PERFORMANCE

## POST HANDOFF/RTM ECNS

PURPOSE-- Measure Microsoft changes to BOMs and SKUs after scheduled/agreed upon frozen date.

## DEFINITION

- Number of changes to the BOM after BOM final and handed off to vendor.

## CALCULATION

Number of BOM changes

- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK --zero

MEASUREMENT TRAPS

- Not counting multiple BOMs affected by one change
- Not counting multiple changes that affect one BOM

71

PROOF CYCLE TIME (COURSEWARE)

PURPOSE-- Measure vendor's ability to process proof and return to Microsoft

DEFINITION

- Number of days for proof to be created and returned to MS for approval.

CALCULATION

Number of days

- MS handoff to vendor is day 1, receipt by MS is 1 day. Excluding non-workdays.
- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK - Courseware: 3 days

MEASUREMENT TRAPS

- Excluding the handoff day
- Excluding the receipt day
- Including non-workdays

72

LONGEST DELTA TO ORDERABILITY (COURSEWARE)

PURPOSE -- Measure Microsoft's ability to hand-off good product the first time.

DEFINITION

- Number of days of longest cycle time to orderability.

CALCULATION

Number of days

- MS hand off is day 1, MS approval for orderability is 1 day. Excluding non-workdays.
- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK - Courseware: 10 days

MEASUREMENT TRAPS

- Excluding the handoff day
- Excluding the receipt day
- Including non-workdays

73

SUPPORTING METRICS --MANUFACTURING PERFORMANCE

74

SHIPPED COMPLETE X DAYS LATE

PURPOSE-- Measure vendor's ability to ship within specified time frames

DEFINITION

- Number of days beyond the scheduled/agreed upon time for all shipments to be complete for a given subscription cycle run.

CALCULATION

Number of days

- If scheduled/agreed for Sep 3 and delivered on Sep 4 - result would be 1.
- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK - zero

MEASUREMENT TRAPS

- Including the due date in calculation
- Excluding non-workdays

75

MANUFACTURING CYCLE TIME -SUBSCRIPTION/MONTHLY MAILER

PURPOSE-- Measure the time to manufacture MS product

DEFINITION

- Total number of days from RTM (workday 1) to available to ship for all items
- Weighted Average of Subscription Events/Monthly Mailers. Includes Subscription events, monthly mailers, and inventory builds for Courseware.

CALCULATION

Number of days

- RTM counts as 1 day, and date available to ship counts as 1 day.
- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK - x days (see statement of work or Microsoft Vendor Account Manager).

MEASUREMENT TRAPS

- Excluding RTM day
- Excluding available to ship day

76

MANUFACTURING CYCLE TIME -ONE-OFF OR WELCOME KIT

PURPOSE-- Measure the time to manufacture MS product

DEFINITION

- Total number of days from RTM/Receipt of Order (workday 1) to available to ship for all items (Welcome Kits, daily orders for Courseware, demand print for Courseware, etc).

CALCULATION

Number of days

- RTM/Receipt of Order counts as 1 day, and date available to ship counts as 1 day.
- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK - x days (see statement of work or Microsoft Vendor Account Manager).

MEASUREMENT TRAPS

- Excluding RTM day
- Excluding available to ship day

## SUPPORTING METRICS - MANUFACTURING VOLUMES

## UNITS SHIPPED FROM A MANUFACTURING SITE

PURPOSE-- Measure volume of units shipped from a manufacturing site.

## DEFINITION

- Total quantity of confirmed End Items shipped from the manufacturing site.

## CALCULATION

Sum of shipped quantities by end item SKU that are shipped from a manufacturing site

- Manufacturing site represents the facility where the end-item was assembled complete.
- End Items are measured by Manufacturing End Item SKU.
- Includes shipments to regional vendor distribution facilities.
- A reship counts as 1 end item SKU shipped
- This should be calculated at the lowest level of available detail in regards to campaign, country, and MS region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK -n/a

## MEASUREMENT TRAPS

- Reporting by SKU, rather than summary of all SKUs
- Summing at a level different than end item SKU
- Excluding reships, comped shipments, replacement parts, supplemental parts, marketing parts from count
- Reporting units at a program level and not broken out by campaign
- Excluding shipments to regional vendor distribution facilities

## PRINT IMPRESSIONS

PURPOSE-- Measure print volume

## DEFINITION

- Total number of print impressions manufactured or purchased

## CALCULATION

Count of print impressions manufactured or purchased

- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK -n/a

## MEASUREMENT TRAPS

- Excluding print impressions purchased

## CDS REPLICATED/PURCHASED

PURPOSE-- MEASURE CD VOLUME

## DEFINITION

- Total number of CDs replicated or purchased

## CALCULATION

Count of CDs replicated or purchased

- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK -n/a

MEASUREMENT TRAPS

- Excluding CDs purchased

81

SUPPORTING METRICS - LOGISTICS PERFORMANCE/VOLUMES

82

CARRIER PERFORMANCE

PURPOSE-- Measure carrier performance relative to the carrier's quoted distribution time

DEFINITION

- Number of shipments delivered to the consignee within the quoted distribution time in relation to the total number of carrier shipments due; recognizes standard allowances for international gateway and customs delays outside the carrier's influence.

CALCULATION

Number of carrier shipments due to the consignee during the reporting period and delivered to the consignee within the quoted distribution time  
Total number of carrier shipments due to the consignee during the reporting period

- Consignee - "ship to" party as reflected on the airway bill. Consignee could be customs, Microsoft subsidiary, disti, intermediate consignee, freight forwarder, or enduser.
- See Carrier Shipments - Due definition page
- This should be calculated at the lowest level of available detail in regards to program and MS region.

FREQUENCY--MS Fiscal Month

BENCHMARK - 95% of shipments delivered to the consignee within the quoted distribution time

MEASUREMENT TRAPS

- Measuring delivery to alternate consignee rather than delivery to the consignee as reflected on the airway bill.
- Measuring shipments picked-up or delivered during a reporting period rather than those due during the reporting period.
- Including conditions beyond the carrier's control, i.e. bad addresses, customs holds, consignee not at home, customer/consignee refused, etc.

83

CARRIER SHIPMENTS - PICKED UP

PURPOSE-- Measure the volume of shipments picked-up by the ship carrier

DEFINITION

- - Number of shipments picked up by the ship carrier during the reporting period.

CALCULATION

Count of shipments picked up by the ship carrier

- - Includes shipments to a single consignee and bulk shipments to Microsoft subsidiaries, distis, etc.
- - Shipment - Single airway bill
- - This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting end item SKUs, rather than shipments as measured by airway bills.
- Counting shipments due, rather than shipments picked up.
- Counting shipments delivered, rather than shipments picked up.

84

SUPPORTING METRICS - EUROPE AND AMME SPECIFIC PERFORMANCE/VOLUMES

85

CUSTOMER QUERY RESPONSE RATE

PURPOSE--Measure response time to queries raised by customers

DEFINITION

- The percentage of customer queries responded to within 24 hours in relation to the total number of queries received.

CALCULATION

Number of customer queries responded to within 24 hours of receipt  
Total number of queries received

- Customer Query Response Rate should be reported based on due date. Although customer queries may have been responded to prior to the reporting period in which they were due, they should be measured and reported based on due date.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - 95% / 24 hours

MEASUREMENT TRAPS

86

REPORTS SUBMITTED ON-TIME RATE

PURPOSE-- Measure quality and timeliness of reports submitted by vendors

DEFINITION

- The number of reports submitted correct and on-time to Microsoft EOC or another Microsoft Vendor in relation to the total number of reports due.

CALCULATION

Number of reports submitted correct and on-time to Microsoft EOC or another  
MS Vendor  
Total number of reports due for submission

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - 95% / 24 hours

MEASUREMENT TRAPS

- Excluding reports to other vendors.
- Reviewing only timeliness and not the quality of reports.

87

SHIPPING ISSUES AS % OF CARRIER SHIPMENTS - DUE

PURPOSE--Measure shipping issues in relation to carrier shipments - due.

DEFINITION

- The number of shipping issues by country received from customers in relation to carrier shipments - due.

CALCULATION

Number of shipping issues received from customers



Total number of carrier shipments - due

- Required by country and by program
- Shipping Issues include;
  - Product not delivered
  - Late delivery
  - Incorrect address
  - Incorrect product delivered
  - Damaged product
- Carrier Shipments - Due is defined separately

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - None

MEASUREMENT TRAPS

- Including shipping inquiries in shipping issues

88

NUMBER OF FTES

PURPOSE-- Measure number of Full Time Equivalentts answering telephone calls.

DEFINITION

- - Full Time Equivalentts answering telephone calls.

CALCULATION

Count of Full Time Equivalentts answering telephone calls.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Including data entry employees.
- Omitting staff who spent part of their time answering calls.

89

SUPPORTING METRICS - ECOMMERCE VOLUMES

90

WEB HITS BY REASON CODE

PURPOSE--Measure volume of web hits by reason code on vendor managed site

DEFINITION

- Number of total web hits to site by reason code

CALCULATION

Count of web hits by reason code, where reason code maps to web page

- Should be system generated via internet
- Separate pages for stages in order process
- Separate tracking by program by page
- MS to provide reason codes
- This should be calculated at the lowest level of available detail in regards to web site, program, and region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting web orders only, rather than total hits

- Aggregating data on multiple sites, rather than reporting hits per site
- Aggregating multiple program data together, when it can be separated

91

#### TOTAL WEB HITS

PURPOSE--Measure volume of total web hits on vendor managed site

#### DEFINITION

- Number of total web hits to site

#### CALCULATION

Count of total web hits to site = Sum of all web hits by reason code

- Should be system generated via internet
- Separate tracking by program by page
- This should be calculated at the lowest level of available detail in regards to web site, program, and region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Counting web orders only, rather than total hits
- Aggregating data on multiple sites, rather than reporting hits per site
- Aggregating multiple program data together, when it can be separated

92

#### PUSH-BACK EMAIL ORDER LINES BY REASON CODE

PURPOSE-- Measure volume of push-back email order lines by reason code

#### DEFINITION

- Number of system generated push-back emails by reason code, as a multiple of order lines and addressees

#### CALCULATION

Count of system generated push-back emails sent by reason code; multiple of email addressee order lines summed to reason code

- Example: Order confirmation for 10 email addressees with 2 order lines each = count of 20.
- Should be system generated via email software
- MS to supply reason codes, i.e. order confirmation, stock out, order line shipped
- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Not calculating email addressees as a multiple
- Not calculating order lines as a multiple

93

#### TOTAL PUSH-BACK EMAIL ORDER LINES

PURPOSE-- Measure volume of push-back email order lines

#### DEFINITION

- Number of system generated push-back emails, as a multiple of order lines & addressees

CALCULATION

Count of system generated push-back emails as a multiple of email addressee order lines

- Example: Total push-back emails for 20 email addressees with 4 order lines each = count of 80.
- Should be system generated via email software
- This should be calculated at the lowest level of available detail in regards to program and region.

FREQUENCY--MS Fiscal Week and MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Not calculating email addressees as a multiple
- Not calculating order lines as a multiple

94

SUPPORTING METRICS - DEVELOPER METRICS

95

ACTIVE SUBSCRIPTIONS - PAID

PURPOSE-- Measure the number of active subscriptions that were originally paid for

DEFINITION

- Number of existing/active subscriptions that were paid for when first activated.

CALCULATION

Count of existing/active subscriptions that were paid for when first activated

- Should be generated from the subscription database
- A new subscription should be recognized in the reporting period in which the Welcome Kit or similar physical deliverable is shipped to the customer.
- This measures the number of subscriptions at a point in time (the last day of the fiscal month) and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting subscriptions that were activated as a program benefit or were given away by marketing.
- Including new subscriptions if the Welcome Kit or similar physical deliverable has not shipped to the customer.
- Reporting a single month's new paid subscriptions

96

ACTIVE SUBSCRIPTIONS - COMPED BY MARKETING

PURPOSE-- Measure the number of active subscriptions that were given away by marketing

DEFINITION

- Number of existing/active subscriptions that were originally given away by marketing, free of charge.

CALCULATION

Count of existing/active subscriptions that were originally given away by marketing, free of charge

- Should be generated from the subscription database

- A new subscription should be recognized in the reporting period in which the Welcome Kit or similar physical deliverable is shipped to the customer.
- This measures the number of subscriptions at a point in time (the last day of the fiscal month) and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting subscriptions that were activated as a program benefit or paid for in full.
- Including new subscriptions if the Welcome Kit or similar physical deliverable has not shipped to the customer.
- Reporting a single month's new comped subscriptions

97

#### ACTIVE SUBSCRIPTIONS - MCP

PURPOSE-- Measure the number of active subscriptions that were activated as a MCP (Microsoft Certified Professional) benefit

DEFINITION

- Number of existing/active subscriptions that were originally activated as a benefit of the MCP program

CALCULATION

Count of existing/active subscriptions that were originally activated as a benefit of the MCP program

- Should be generated from the subscription database
- A new subscription should be recognized in the reporting period in which the Welcome Kit or similar physical deliverable is shipped to the customer.
- This measures the number of subscriptions at a point in time (the last day of the fiscal month) and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting subscriptions that were given away by marketing free of charge or paid for in full.
- Including new subscriptions if the Welcome Kit or similar physical deliverable has not shipped to the customer.
- Reporting a single month's new MCP subscriptions

98

#### UPGRADES

PURPOSE-- Measure the number of subscription upgrades

DEFINITION

- Number of existing subscribers that upgrade to a higher level subscription during a given month

CALCULATION

Count of existing subscriptions that are upgraded to a higher level during the fiscal month

- Should be generated from the subscription database
- The upgrade should be recognized in the reporting period in which the Welcome Kit or similar physical deliverable is shipped to the customer.

- This does not channel upgrades
- The upgrade should be reported with the Campaign Code of the new subscription level.
- This should be measured for a single month's activity.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting renewals at the same level
- Reporting the upgrade in a period other than that in which the Welcome Kit or similar physical deliverable was shipped to the customer.
- Reporting year to date upgrades

99

#### RENEWALS AT THE SAME LEVEL

PURPOSE-- Measure the number of subscription renewals during a given month

DEFINITION

- Number of existing subscriptions that are renewed at the same program level

CALCULATION

Count of existing subscriptions that are renewed at the same level during the fiscal month

- Should be generated from the subscription database
- The renewal should be recognized in the reporting period in which the first physical deliverable related to the new subscription is shipped to the customer. This physical deliverable could include but is not limited to a Welcome Kit, Incremental Kit, or Order Confirmation.
- This includes channel renewals and does not include renewals that remain unpaid.
- This should be measured for a single month's activity.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting upgrades
- Reporting the renewal in the period it was paid for and not the period the new subscription was shipped to the customer.
- Reporting year to date renewals

100

#### EXPIRED SUBSCRIPTIONS

PURPOSE-- Measure the number of subscriptions that expired during a given month

DEFINITION

- Number of existing subscriptions that were not renewed or upgraded upon expiration

CALCULATION

Count of existing subscriptions that were not renewed or upgraded upon expiration during the fiscal month

- Should be generated from the subscription database
- The expiration should be recognized in the reporting period in which the subscription was marked as expired.

- This should be measured for a single month's activity.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting upgrades to a higher level
- Reporting the number of year to date expired subscriptions

101

#### CANCELLED/RETURNED SUBSCRIPTIONS

PURPOSE-- Measure the number of subscriptions that were cancelled or returned during a given month.

DEFINITION

- Number of existing subscriptions that are cancelled or returned by the customer

CALCULATION

Count of existing subscriptions that are cancelled or returned during the fiscal month

- Should be generated from the subscription database
- The return or cancellation should be recognized in the reporting period in which the subscription's status is changed to "cancelled".
- This should be measured for a single month's activity.
- This does not include undeliverable shipments.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting the returned or cancelled subscription before the refund is made.
- Reporting the number of year to date cancelled subscriptions
- Including returns from undeliverable shipments

102

#### COMPED SUBSCRIPTIONS - MARKETING

PURPOSE-- Measure the number of subscription that were given away by marketing during a given month

DEFINITION

- Number of subscriptions that were given away, free of charge, and not benefits from other programs

CALCULATION

Count of subscriptions that are given to marketing or shipped to a customer, free of charge, with marketing's approval during the fiscal month

- Should be generated from the subscription database
- The comped subscription should be recognized in the reporting period in which the new subscription was shipped to marketing or the customer.
- This does not include channel activations.
- These are subscriptions that do not generate revenue.
- This should be measured for a single month's activity.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting comped subscriptions that are related to other programs' benefits
- Reporting year to date comped subscriptions

103

COMPED SUBSCRIPTIONS - MCP

PURPOSE-- Measure the number of subscriptions that shipped as MCP benefits during a given month

DEFINITION

- Number of subscriptions that are shipped to new MCPs as part of MCP's program benefits

CALCULATION

Count of subscriptions that are shipped as part of MCP benefits during the fiscal month

- Should be generated from the subscription database
- MCP - Microsoft Certified Professional
- The comped subscription should be recognized in the reporting period in which the new subscription was shipped to the customer.
- This does not include channel activations.
- These are subscriptions that do not generate revenue.
- This should be measured for a single month's activity.
- This should be calculated at the lowest level of available detail in regards to subscription level and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting comped subscriptions that are related to MCSP's benefits or given away by marketing.
- Reporting year to date comped subscriptions

104

NEW CHANNEL SUBSCRIPTIONS

PURPOSE-- Measure the number of new subscriptions purchased from the reseller channel during a given month

DEFINITION

- Number of new subscriptions purchased from a reseller

CALCULATION

Count of new subscriptions that were purchased from a reseller during the fiscal month

- Should be generated from the subscription database
- This does not include upgrades or renewals
- This should be measured for a single month's activity.
- This should be calculated at the lowest level of available detail in regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting comped subscriptions that are related to another program's benefits or given away by marketing.

- Counting other paid subscriptions that were not purchased through the reseller channel.
- Reporting year to date subscriptions
- Including upgrades or renewals

105

#### NEW DIRECT SUBSCRIPTIONS

PURPOSE-- Measure the number of new subscriptions purchased directly from Microsoft during a given month

#### DEFINITION

- Number of new subscriptions purchased directly from Microsoft or its respective vendor during the fiscal month

#### CALCULATION

Count of new subscriptions that were purchased directly from Microsoft or its respective vendor

- This does not include channel activations or comped subscriptions
- This should be measured for a single month's activity.
- Should be generated from the subscription database
- This should be calculated at the lowest level of available detail in regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Counting comped subscriptions that are related to another program's benefits or given away by marketing.
- Counting paid subscriptions that were purchased through the reseller channel.
- Reporting year to date subscriptions

106

#### REMAINING SUBSCRIPTIONS ISSUES (0)

PURPOSE-- Measure the number of active subscriptions that have no remaining issues

#### DEFINITION

- Number of active subscriptions that have no remaining issues to go

#### CALCULATION

Count of active subscriptions that have no remaining issues to go as recorded on the last day of the fiscal month

- Active subscriptions includes only those eligible to receive interims
- Should be generated from the subscription database
- This measures the number of subscriptions at a point in time and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

#### MEASUREMENT TRAPS

- Counting any subscriptions that have remaining issues
- Not counting subscriptions that are still eligible for interims

107

#### REMAINING SUBSCRIPTION ISSUES (1)



PURPOSE-- Measure the number of active subscriptions that have one issue remaining

DEFINITION

- Number of active subscriptions that have one issue remaining

CALCULATION

Count of active subscriptions that have one issue to go as recorded on the last day of the fiscal month

- Active subscriptions includes only those eligible to receive interims
- Should be generated from the subscription database
- This measures the number of subscriptions at a point in time and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

Counting any subscriptions that have other than one remaining issue

108

REMAINING SUBSCRIPTION ISSUES (2)

PURPOSE-- Measure the number of active subscriptions that have two issues remaining

DEFINITION

- Number of active subscriptions that have two issues remaining

CALCULATION

Count of subscriptions that have two issues to go as recorded on the last day of the fiscal month

- Active subscriptions includes only those eligible to receive interims
- Should be generated from the subscription database
- This measures the number of subscriptions at a point in time and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting any subscriptions that have other than two remaining issues

109

REMAINING SUBSCRIPTION ISSUES (3)

PURPOSE-- Measure the number of active subscriptions that have three issues remaining

DEFINITION

- Number of active subscriptions that have three issues remaining

CALCULATION

Count of subscriptions that have three issues to go as recorded on the last day of the fiscal month

- Active subscriptions includes only those eligible to receive interims
- Should be generated from the subscription database
- This measures the number of subscriptions at a point in time and not year to date.
- This should be calculated at the lowest level of available detail in

regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting any subscriptions that have other than three remaining issues

110

REMAINING SUBSCRIPTION ISSUES (4+)

PURPOSE-- Measure the number of active subscriptions that have four or more issues remaining

DEFINITION

- Number of active subscriptions that have four or more issues remaining

CALCULATION

Count of subscriptions that have four or more issues to go as recorded on the last day of the fiscal month

- Active subscriptions includes only those eligible to receive interims
- Should be generated from the subscription database
- This measures the number of subscriptions at a point in time and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting any subscriptions that have less than four remaining issues

111

SUPPORTING VOLUME - BETA CD VOLUMES

112

BETA CD SUBSCRIPTIONS - MARKETING

PURPOSE-- Measure the number of active Beta CD subscriptions that were nominated

DEFINITION

- Number of active Beta CD subscriptions that were nominated and activated with a signed NDA

CALCULATION

Count of active Beta CD subscriptions that were nominated and activated with a signed NDA

- Should be generated from the subscription database
- NDA - Non-Disclosure Agreement.
- This measures the number of subscriptions at a point in time and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting any subscriptions that were activated as a MCP benefit

113

BETA CD SUBSCRIPTIONS - MCP

PURPOSE-- Measure the number of active Beta CD subscriptions that were activated as a MCP (Microsoft Certified Professional) benefit

DEFINITION

- Number of active Beta CD subscriptions that were activated as a MCP benefit

CALCULATION

Count of active Beta CD subscriptions that were activated as a MCP benefit

- Should be generated from the subscription database
- This measures the number of subscriptions at a point in time and not year to date.
- This should be calculated at the lowest level of available detail in regards to subscription level, and country.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Counting any subscriptions that were initiated by marketing

114

SUPPORTING METRICS - MSN VOLUMES

115

UNITS SHIPPED - PHONE

PURPOSE-- Measure the quantity of MSN units that were ordered via the phone and shipped to an End-Customer.

DEFINITION

- Total quantity of MSN units shipped that were ordered via the phone.

CALCULATION

Sum of MSN units ordered via the phone and shipped to an End-Customer

- End-Customer represents the person or party that placed the order.
- This should be calculated at the lowest level of available detail in regards to campaign, country and MS region.

FREQUENCY--MS Fiscal Month

BENCHMARK -n/a

MEASUREMENT TRAPS

- Reporting units at a program level and not broken out by campaign

116

UNITS SHIPPED - INTERNET

PURPOSE-- Measure the quantity of MSN units that were ordered via the internet and shipped to an End-Customer.

DEFINITION

- Total quantity of MSN units shipped that were ordered via the internet.

CALCULATION

Sum of MSN units ordered via the internet and shipped to an End-Customer

- Internet includes email and web.
- End-Customer represents the person or party that placed the order.
- This should be calculated at the lowest level of available detail in regards to campaign, country and MS region.

FREQUENCY--MS Fiscal Month

BENCHMARK -n/a

MEASUREMENT TRAPS

- Reporting units at a program level and not broken out by campaign

117

UNITS SHIPPED - DOWNLOAD

PURPOSE-- Measure the quantity of MSN units that were ordered via a download to the vendor and shipped to an End-Customer.

DEFINITION

- Total quantity of MSN units shipped that were ordered via a download.

CALCULATION

Sum of MSN units ordered via a download and shipped to an End-Customer

- End-Customer represents the person or party that placed the order.
- This should be calculated at the lowest level of available detail in regards to campaign, country and MS region.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Reporting units at a program level and not broken out by campaign

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UNITS SHIPPED - MAIL

PURPOSE -- Measure the quantity of MSN units that were ordered via mail or fax and shipped to an End-Customer.

DEFINITION

- Total quantity of MSN units shipped that were ordered via mail or fax.

CALCULATION

Sum of MSN units ordered via mail or fax and shipped to an End-Customer

- End-Customer represents the person or party that placed the order.
- This should be calculated at the lowest level of available detail in regards to campaign, country and MS region.

FREQUENCY--MS Fiscal Month

BENCHMARK - n/a

MEASUREMENT TRAPS

- Reporting units at a program level and not broken out by campaign

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Appendix B to Exhibit A

This MCP Customer Service Calls is attached hereto as Appendix B to the Exhibit A Statement of Work ("SOW") of the Master Services Agreement entered into by and between (CHINESE CHARACTERS) Microsoft (China) Co., Ltd. and (CHINESE CHARACTERS) ATA Testing Authority, Beijing Co., Ltd. ("ATA") on May 16, 2003. This MCP Customer Service Calls may be updated by Microsoft from time to time and ATA shall obey the MCP Customer Service Calls in accordance with the Master Services Agreement and SOW.

The "MCP Customer" provided in this MCP Customer Service Calls shall have the same meaning as the "Candidate" as defined in the SOW.

MCP CUSTOMER SERVICE CALLS

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MCP CUSTOMER SERVICE CALLS

1.0 OVERVIEW

MCP customers want MCP information as quickly as possible, but without being "bounced" from person to person. In order to achieve this, representatives answering these calls must immediately know who is responsible for information so they can either keep a call or transfer it. This document is intended to make call responsibility between vendors clear to avoid hesitation and reduce transfers.

Several vendors involved with the Microsoft Certified Professional program (MCP) support customer service calls. These vendors are either Regional Educational Service Centers vendors ("RESCs") or exam testing vendors.

2.0 CALL RESPONSIBILITIES

Call responsibilities are outlined in the table below. Note that in some cases responsibility overlaps.

2.1 CALL RESPONSIBILITIES GRID

<TABLE>

<CAPTION>

Section	RESCs	Exam Vendors	Responsibility
<S>	<C>	<C>	<C>
2.1.1		X	Register candidates for exams.
2.1.2		X	Take exam voucher orders.
2.1.3		X	Receive and process external certification faxes.
2.1.4	X	X	Answer questions ABOUT exam registration. See section 5.0, Exam Registration Questions and Answers
2.1.5	X	X	Answer questions about exam AVAILABILITY. See section 5.0, Exam Registration Questions and Answers
2.1.6	X	X	Answer questions related to TAKING exams. See section 5.0, Exam Registration Questions and Answers.
2.1.7	X		Respond to ALL other MCP calls.  The information referred to by "all other calls" is basically the same as the topics on the MCP web site, which are listed in section 3.0, MCP Web Site. If an RESC representative can not respond to a question or issue, even if it is best answered by an exam vendor, the call should be escalated internally.

</TABLE>

3.0 MCP WEB SITE

3.1 MCP WEB SITE TOPICS LIST

Callers should be encouraged to go to the MCP web site at all appropriate opportunities. The web includes topics such as the ones listed in 3.1, MCP Web Site Topics List. This list also forms the broad range of topics for which RESCs are responsible. Note that this list may not be complete and may change at any time.

MCP Web Site Information

<TABLE>

<S>      <C>

- 3.1.1 Address changes: Beta CD
- 3.1.2 Address changes: MCP Magazine
- 3.1.3 Magazine
- 3.1.4 Address changes: MSDN
- 3.1.5 Address changes: TechNet
- 3.1.6 Address changes: Welcome Kit
- 3.1.7 Beta exam information
- 3.1.8 Certification benefits
- 3.1.9 Certification options
- 3.1.10 Certification requirements
- 3.1.11 Events
- 3.1.12 Exam exemption policy
- 3.1.13 Exam results
- 3.1.14 Exam retirement information
- 3.1.15 External certifications
- 3.1.16 How exams are developed
- 3.1.17 How to get started information
- 3.1.18 Maintaining certification
- 3.1.19 MCP Only - seminars online
- 3.1.20 New exam information
- 3.1.21 Other information
- 3.1.22 Program news
- 3.1.23 Promotions
- 3.1.24 Register for an exam on-line
- 3.1.25 Testing centers
- 3.1.26 Training centers..
- 3.1.27 Training resources: Practice tests
- 3.1.28 Training resources: Preparation courses
- 3.1.29 Training resources: Self-paced training
- 3.1.30 Training resources: Study guides

3.2 LIST OF REASONS TO CALL AN RESC

It is also important to know that the public MCP Web Site is the RESCs' major source of information. This same information is available to customers. Basically, people call an RESC because they would rather speak to a person than hunt for information on the web. The only reasons for which customers truly need to call an RESC are listed below.

<TABLE>  
<CAPTION>

Section	Reason
3.2.1	Information clarification
3.2.2	Web tool does not work
3.2.3	Can't find something on the site
3.2.4	Reorders
3.2.5	Beta exam results
3.2.6	Transcript information when candidates are not yet certified
3.2.7	Benefits have not arrived.

</TABLE>

4.0 REFERRING CALLS

The call referral grids below outline when RESCs should refer customers to an exam vendor or the web and when exam vendors should refer customers to an RESC or the web.

4.1 RESC CALL REFERRAL GRID

<TABLE>  
<CAPTION>

Section	Reason for Referral	MCP Web Site	Exam Vendor
4.1.1	Receive external certification faxes	--	Yes
4.1.2	Take exam voucher orders	--	Yes
4.1.3	Register candidate for exam	Yes	Yes
	Send customers to the web first. If this does not suffice, refer them to an exam vendor.		
4.1.4	Refer address changes for MCP Magazine, MSDN, TechNet benefits to the respective benefit providers.	Yes	No
4.1.5	ALL other questions	Yes	No!
	Unless the call concerns one of the reasons above or the caller chooses to go to the web site, RESCs MUST complete the call. If the correct response is not known, escalate the call.		

</TABLE>

#### 4.2 EXAM VENDOR CALL REFERRAL GRID

<TABLE>

<CAPTION>

Section	Reason for Referral	MCP Web Site	RESC
<S>	<C>	<C>	<C>
4.2.1	Receive external certification faxes	No	No
4.2.2	Take exam voucher orders	No	No
4.2.3	Register candidate for exam	No	No
4.2.4	Questions about exam registration	Yes	No
4.2.5	Questions about taking exams	Yes	No
4.2.6	Questions about exam availability	Yes	No
4.2.7	ALL other questions	Yes!	Yes!
	Must refer questions or issue to the web site or an RESC.		

</TABLE>

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#### Appendix B to Exhibit A

#### 5.0 EXAM REGISTRATION QUESTIONS AND ANSWERS

Below are the most common questions and categories of questions concerning exam registration, taking exams, external certifications, vouchers and the Microsoft Sales Specialist program. Note that BOTH exam vendors and RESCs are responsible for these questions and answers.

#### 5.1 REGISTRATION

Q: Why must a candidate show two forms of ID?

A: Requiring two forms of ID, one with a picture, helps prove that a person is who they say they are and discourages cheating.

Q: Why is it important to verify candidates' information?

A: If information is not correct, MCPs may not receive their benefits. Also, it only takes two people a minute to verify information. It can takes several people a total of more than an hour over a span of many days to fix incorrect information, plus much annoyance in between.

Q: Why is the e-mail field important?

A: E-mail and Microsoft Web Sites are the primary method that Microsoft uses to communicate new information to MCPs. Without a valid e-mail address in the related databases, MCPs may not receive the latest information regarding new exams, promotions or benefits.

Q: Are P.O. boxes acceptable addresses?

A: No. They are not accepted in North America because most MCP benefits will not be delivered to a P.O. Box. If a customer absolutely insists, warn them that they may not receive their benefits.

Q: Can candidates register for an exam twice?

A: Candidates may register for the SAME exam only once at any given time. For example, they may not be registered for the same exam Monday and again Friday in case they fail the first time. They may register for two or more DIFFERENT exams at the same time.

Q: How does a specific promotion work?

A: Information regarding promotions is forwarded before the promotion goes live. See reference material specific to that promotion.

Q: What is the discount for a specific promotion?

A: Information regarding promotions is forwarded before the promotion goes live. See reference material specific to that promotion.

Q: Is a candidate eligible for this promotion?

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#### Appendix B to Exhibit A

A: Information regarding promotions is forwarded before the promotion goes live. See reference material specific to that promotion.

Q: What are Upgrade Promotions and who is eligible?

A: When an exam retires and the MCP candidate is required to take the new exam to keep his/her certification, the candidate can take the exam at 50% off for a limited time. Refer to [WWW.MICROSOFT.COM/EXAMINFO/RETIRE](http://WWW.MICROSOFT.COM/EXAMINFO/RETIRE)

## 5.2 EXAM QUESTIONS

- Q: How much does it cost to take MCP, Beta, MCT or MSS exams?
- A: The exam price is included in tuition through the Ministry of Education Polytechnic Program. For commercial pricing please visit Microsoft's website.
- Q: What LIVE exams are in development, currently offered, or obsolete?
- A: See reference material or Newly released exams at <http://www.microsoft.com/mcp/examinfo/exams.htm> Retired exams at <http://www.microsoft.com/mcp/examinfo/retired.htm>
- Q: What BETA exams are currently offered?
- A: See reference material or the certification requirement tables listed for each certification track. Access from the left-hand column anywhere on the MCP web site. Example at <http://www.microsoft.com/mcp/certstep/mcsein.htm> or use the search tool at
- Q: Exam titles and corresponding numbers?
- A: See reference material or exam information at <http://www.microsoft.com/mcp/examinfo/exams.htm>
- Q: Nondisclosure Agreement Issues?
- A: In Feb.1998 the MCP Program began requiring candidates to accept the terms of an NDA before taking an exam. An NDA legally requires candidates to keep information related to MCP exam items confidential.

See reference material or the following links:

Nondisclosure Agreement text at <http://www.microsoft.com/mcp/articles/nda.htm>, Exam security FAQ at [http://www.microsoft.com/mcp/certstep/sec\\_qa.htm](http://www.microsoft.com/mcp/certstep/sec_qa.htm), Letter to MCPs (re exam security) at <http://www.microsoft.com/mcp/certstep/letter.htm>.

- Q: Exam Retake Policies?
- A: BETA exams may ONLY be taken once. LIVE exams may be taken a second time at any time. If candidates fail the second time, they MUST wait at least two weeks for testing the third time on that exam. This is to protect the integrity of the exam so people can't memorize the questions and

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answers.

See reference material or Exam Security FAQ at [http://www.microsoft.com/mcp/certstep/sec\\_qa.htm](http://www.microsoft.com/mcp/certstep/sec_qa.htm).

- Q: Survey Questions?
- A: These are general questions regarding the candidates current work environment (do they work in the IT industry?) as well as questions regarding how the candidate prepared. Microsoft uses this info to enhance the MCP exams and study information.

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- Q: How long does it take to get exam results?
- A: Exam results are different for live exams versus beta exams.
1. Results for LIVE exams are given at the end of the exam. Results should appear in the on-line transcript tool approximately 20 days after the exam is taken.
  2. BETA exam results are generated and mailed to candidates about 8 weeks after the beta exam closes.
- Q: How long is a specific exam (number of questions and time)?
- A: Most exams include 50 to 70 items, and the average duration is 90 minutes. For exams that include adaptive testing the number of items is about 15 to 30; the time required for testing is reduced accordingly.

See reference material or the following links: MCP FAQ at <http://www.microsoft.com/mcp/articles/tesinn.htm>, What to expect at the testing center at [http://www.microsoft.com/Train\\_Cert/mcp/certstep/expect.htm](http://www.microsoft.com/Train_Cert/mcp/certstep/expect.htm).

- Q: What is the passing score for a specific exam?
- A: Microsoft DOES NOT provide this information to candidates. Escalate issues



to Microsoft RESC.

Q: In which languages may a candidate take an exam?

A: See reference material.

Q: Exams testing Issues?

A: If a candidate complains about a technical issue with the exam, (example: an exam shut down half way during the test), it is the exam vendor's responsibility. Because an RESC will not be able to do anything but listen, the exam vendor must handle any issues related to a testing center experience. If the issue is content- or score-related, the candidate should be referred to an RESC.

Q: Are exams open-book?

A: No.

Q: Can I use a calculator during the exam?

A: Only non-programmable calculators may be brought in for the exam. In future, all new or republished exams will have built in calculators that will be activated for exams needing them. Personal calculators are not allowed for these exams.

Q: What is a Score Report?

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#### Appendix B to Exhibit A

A: A score report is a document printed at the end of the exam that states the candidate's exam score, the exam passing score, and areas for the candidate's improvement.

Q: Where can candidates go for more information?

A: Refer them to the Web Site at <http://www.microsoft.com/mcp/>

Q: What is the Exam Experience Like?

A: When you arrive, you will be asked to log in, show two forms of I.D. (one with a picture) and sign a nondisclosure agreement. Personal items, such as purses and pagers, are not allowed in the testing area. You can have them locked in the administrator's desk if you have nowhere else to put them. An administrator will monitor the exam room and will be available for assistance. A required demographic survey and an optional testing tutorial precedes the exam. When you begin the exam, it will tell you how many questions it contains and how much time is allowed. A clock on the exam will tell you how many minutes you have left. When you finish all the questions, you can either review them if you have time left or exit the exam. When you exit the exam, the administrator will collect any materials, document your exit time and give you your score report and any personal items that were locked away.

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#### Appendix B to Exhibit A

##### 5.3 EXTERNAL CERTIFICATIONS

Q: How does a candidate get an external certification waiver?

A: To get exams waived, candidates need to fax a copy of their external certification to their regional exam vendor. The exam vendor enters the information into the system for transfer to Microsoft. See reference material. <http://www.microsoft.com/mcp/certstep/exempt.htm>

##### 5.4 VOUCHERS

Q: What types of vouchers are there?

A: ATA defines the scope of each voucher separately. The terms for one may be completely different for another. See reference material.

Q: Does a candidate have to test by the voucher expiration date?

A: Yes. See reference material.

Q: How does a candidate redeem the voucher?

A: Candidates give the exam vendor representative the voucher number over the phone. The representative verifies the number. See reference material.

Q: Can a candidate turn a voucher in for a refund?

A: No. Terms of use are printed on the back of the voucher.

Q: How does a candidate order vouchers?

A: Exam vendors see reference material. RESCs, refer customer to exam vendor.

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6.0 SUMMARY OF LINKS

- Exam refund information (5.1.10),  
[http://www.microsoft.com/Train\\_Cert/mcp/certstep/examreg.htm](http://www.microsoft.com/Train_Cert/mcp/certstep/examreg.htm)
- Exam cost (5.2.1),  
<http://www.microsoft.com/mcp/faq.htm>
- Newly released exams (5.2.2),  
<http://www.microsoft.com/mcp/examinfo/exams.htm>
- Retired exams (5.2.2),  
<http://www.microsoft.com/mcp/examinfo/retired.htm>
- Beta exams currently offered (5.2.3),  
<http://www.microsoft.com/mcp/certstep/mcsein.htm>
- Exam titles and corresponding numbers (5.2.4),  
<http://www.microsoft.com/mcp/examinfo/exams.htm>
- Nondisclosure Agreement text (5.2.5)  
<http://www.microsoft.com/mcp/articles/nda.htm>,
- Exam security FAQ (5.2.5) (5.2.6)  
[http://www.microsoft.com/mcp/certstep/sec\\_ga.htm](http://www.microsoft.com/mcp/certstep/sec_ga.htm),
- Letter to MCPs (re exam security) (5.2.5),  
<http://www.microsoft.com/mcp/certstep/letter.htm>.
- Exam length (5.2.10)  
<http://www.microsoft.com/mcp/articles/tesinn.htm>
- What to expect at the testing center (5.2.10)  
[http://www.microsoft.com/Train\\_Cert/mcp/certstep/expect.htm](http://www.microsoft.com/Train_Cert/mcp/certstep/expect.htm).
- Where candidates can go for more information (5.2.18)  
<http://www.microsoft.com/mcp/>  
<http://www.microsoft.com/skills2000>
- External certification waivers (5.3.1)  
<http://www.microsoft.com/mcp/certstep/exempt.htm>
- Microsoft Sales Specialist program (5.5.1)  
<http://www.microsoft.com/salesspecialist/>

Appendix B to Exhibit A

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MICROSOFT (CHINA) CO., LTD.	ATA TESTING AUTHORITY, BEIJING CO., LTD
-----	-----
<S>	<C>
-----	-----
Signature	Signature
-----	-----
Name (Print)	Name (Print)
-----	-----
Title	Title
-----	-----
Date	Date
</TABLE>	

APPENDIX C TO EXHIBIT A

This Missing Exam Information and Data Feed Processes is attached hereto as Appendix C to the Exhibit A Statement of Work ("SOW") of the Master Services Agreement entered into by and between (CHINESE CHARACTER) Microsoft (China) Co.,

Ltd. and (CHINESE CHARACTER) ATA Testing Authority, Beijing Co., Ltd. ("ATA") on May 16, 2003. This Missing Exam Information and Data Feed Processes may be updated by Microsoft from time to time and ATA shall obey the Missing Exam Information in accordance with the Master Services Agreement and SOW.

The "candidate" provided in this Missing Exam Information and Data Feed Processes shall have the same meaning as the "Candidate" as defined in the SOW.

#### APPENDIX C TO EXHIBIT A

##### APPENDIX C

##### MISSING EXAM INFORMATION AND DATA FEED PROCESSES

##### ABBREVIATIONS

<TABLE>

<S>	<C>
1. Testing Center	TC
2. Exam Service Performer/Provider	ESP
3. Microsoft	MSFT
4. Call Center	CCNTR
5. Vendor Acct Manager	VAM
6. Regional Education Service Center	RESC

</TABLE>

#### APPENDIX C TO EXHIBIT A

##### OVERVIEW

Purpose of this document is to outline the procedures necessary to ensure that MSFT has successfully received all exam records from the ESP and to eliminate these issues from becoming candidate escalations. This issue typically becomes a candidate escalation when the missing exam record prohibits a candidate from receiving a welcome kit--resolution of candidate escalations is of the highest priority. This document will also include procedures for: confirmation & error files; bi-monthly reconciliations; weekly conference calls with THE CALL CENTER support and MSFT Tier One; and issues with the MSFT server locking the ESP out. This document will also cover the escalation process as it relates to these issues.

##### POSSIBLE MISSING EXAM SCENARIOS

1. Candidate's record is not sent from TC to ESP.
2. Candidate's record is sent from ESP to MSFT but score is failed in MSFT and ESP's DBs, yet the candidate has a copy of a passing score report.
3. Candidate's record is sent from TC to ESP, but is not sent to MSFT.
4. Candidate's record is sent from ESP to MSFT, but MS-Cert rejects the record. Typically, when this happens ESP has an error message that details why the records was not accepted at MSFT.
5. Candidate's record is sent from ESP to MSFT, but MS-Cert rejects the record without issuing an error message.

In Scenarios #'s 1 through 4 it is the responsibility of the ESP to correct the issue. In Scenario #5 it is the responsibility of the ESP to escalate to Tier One for resolution (copying the appropriate VAM).

##### PROCESS WHEN MISSING EXAMS ARE ESCALATED TO THE CALL CENTER--THIS IS THE HIGHEST PRIORITY!

- - Missing exams are escalated to the call center from Candidates.
- - THE CALL CENTER will also enter these issues on their escalation spreadsheet for tracking and recording dates and all communication with ESP regarding the issue.
- - Depending on the priority of issue, the escalation will come from either "MCP Hot," which is the highest priority, or from the dedicated THE CALL CENTER contact (typically, lower priority issues are communicated via logs or spreadsheets between THE CALL CENTER and the ESP).
- - If the escalation comes from "MCP Hot"
  - The ESP must respond within 4 business hours, via email or by phone or both confirming:
    - Status of the issue and an expected resolution time/date.
    - ESP to update THE CALL CENTER every 24 hours with status until resolution with details of actions being taken to resolve issue.
- - ESP is expected to respond WITHIN 48 HOURS, via email, confirming with THE CALL CENTER that the issue is either:
  - Resolved & Resent
  - Inform THE CALL CENTER that more info is needed (for example, a copy

of the score report).

- Update THE CALL CENTER on status of record in the event that a specific issue demands more than 48 hours to resolve. If the issue is that the candidate is suspected of cheating, the ESP should instruct THE CALL CENTER that it is the ESP's issue and the ESP should follow the requirements outlined in the Cheater Policy document.
- IN ALL INSTANCES, THE ESP MUST CORRESPOND CLOSELY WITH THE CALL CENTER, VIA EMAIL AND ON THE WEEKLY CONFERENCE CALLS, UNTIL RESOLUTION.
- - Identified missing exams should be resent to MSFT and ESP should verify that the record was received and processed by MSFT, via the confirmation file (see steps regarding the Confirmation File below).
- - All unresolved issues should be addressed during a regular conference call that includes THE CALL CENTER, ESP and Tier One. During this call each issue should be discussed in detail so THE CALL CENTER can appropriately update MSFT and the customer as necessary on the status. This meeting should not be used to necessarily raise new issues--all issues must be escalated as soon as they are discovered, but this meeting should be used to talk through difficult issues and discuss root cause analysis.
- - If the candidate is not suspected of cheating, the exam should be sent twice. On the second error, the ESP should escalate to CertHelp. If CertHelp cannot correct, CertHelp should manually recreate the record.

#### APPENDIX C TO EXHIBIT A

- - All action should be noted, in the escalation spreadsheet, by THE CALL CENTER in order that MSFT has visibility to how often this happens. Also, the ESP should work to identify the reason why the record would not import into MS-Cert and update THE CALL CENTER with that information in order to determine trends.

#### CONFIRMATION FILES

Unless an error occurs between the TC and the ESP or the ESP did not send the record to MSFT, all escalations should be avoided by the ESP's daily monitoring of the confirmation file.

- - ESP should monitor the confirmation files DAILY to ensure that all records sent to MSFT are registered as either confirmed or rejected.
- - Exam results confirmation files are placed on the ESPs' Extranet share in the "TO" directory every day. These files confirm whether the records were received or rejected. The confirmation file lists all records received by line item and distinguishes those that were successfully imported from those that have an errors associated.
- - For those records that were rejected, ESP should correct the record and re-send. If the ESP receives a second error on the same record, ESP is to send details of the record (Reg ID# and error type) to Tier One via the CertHelp alias.
- - Tier One will log the issue and attempt to resolve. If Tier One is unable to resolve, Tier One will rebuild the exam to ensure that candidate is taken care of, but will continue to escalate the issue to determine root cause.
- - If the ESP receives an error that the ESP is unfamiliar with, the ESP should escalate to Tier One with specific details of the record and error message in question for direction from Tier One on how to handle the error.

MSFT WILL PUBLISH A LIST OF ALL ERRORS THAT MS-CERT CURRENTLY VALIDATES.

#### PROCESS FOR BI-MONTHLY RECONCILIATIONS

This process should be viewed as a back up process to the daily confirmation process. The bi-monthly reconciliations should NOT uncover any new issues to the ESP--all issues should be detected during the daily confirmation process and either corrected daily or escalated immediately to CertHelp. If any records are uncovered during this process and not previously escalated to MSFT, it should be considered a red flag to the ESP and the VAM and indicate that the ESP is not monitoring the daily confirmation process or unveil a larger problem with the confirmation file process.

- - On a bi-monthly basis, the ESP will provide MSFT Tier One with a report of all registration ID #'s from the previous month. By going back one month for each reconciliation, each two week period will actually be reconciled twice to catch any latent issues.
- - Tier One will query this against MS-Cert and determine if any records are missing from MS-Cert.
- - Tier One will forward all missing registration ID's to ESP. The ESP should correct and resend within 24 hours, emailing Tier One with notification of the resend (always copying the appropriate VAM).
- - ESP should also build a report using the missing registration ID #'s with candidate information and date the exam was taken and current status of

each issue.

- - ESP is responsible to verify that the records imported properly the second time--this should be accomplished via the confirmation files.
- - If the ESP discovers that the records were originally sent to MSFT correctly and did not generate appropriate confirmation files, ESP should email Tier One with specific examples of records that were sent to MSFT and did not generate the appropriate confirmation/error files. Tier One should research to determine root cause of issue.

WEEKLY CONFERENCE CALLS

On a weekly basis, ESP, Tier One, THE CALL CENTER and appropriate VAM (as necessary) should meet via conference call to discuss all open issues, including those on THE CALL CENTER's open issues list and those records identified by the regular reconciliations. The VAM will coordinate setting up these meetings with the ESP. From these meetings THE CALL CENTER will update status on all open issues and escalate as necessary.

APPENDIX C TO EXHIBIT A

DATA FEED PROCESS

- - In the event that ESP was unable to send exam records to MSFT on time, an auto-email notification will go out from MSFT to members of MSFT and ESP notifying both parties that the MS-Cert did not receive records for the previous night.
- - ESP will contact MSFT regarding reason why records were not sent. In the event the loss of exams is the result of a larger issue, ESP will also update MSFT at this time.
- - In the event the ESP is unable to post files because the MSFT server will not allow access, the ESP should contact the Business Partners Support Desk at 425.703. ESP should also email CertHelp and copy Timothy Ricord at MS OBS Support and inform them that they have contacted the Support Desk, supplying the Log number if possible

REBUILDING OF EXAM RECORDS

In the event that an exam will not download into MS-Cert or a customer has escalated a missing exam to MSFT and the issue can not be resolved quickly, the exam record should be rebuilt by Tier One. To rebuild an exam, Tier One needs the following information

1. MCP ID:
2. Exam Number:
3. Exam Date:
4. Exam Score:
5. Vendor Id (1=Sylvan, 8=Vue):
6. Vendor Registration Id:
7. Vendor Loc Code:
8. Vendor Client Code (i.e. 070, 071, 075):
9. Country code

<TABLE>

<CAPTION>

CONTACTS	EMAIL	PHONE
<S>	<C>	<C>
ACCOUNT MANAGER		
- Michael Vanderhyde	mvand@microsoft.com	(425) 703-3422

</TABLE>

\*\* The appropriate Account Manager should be cc'd on all communications unless otherwise notified.

APPENDIX C TO EXHIBIT A

(CHINESE CHARACTER)	(CHINESE CHARACTER)
MICROSOFT (CHINA) CO., LTD.	ATA TESTING AUTHORITY, BEIJING CO., LTD

----- Signature	----- Signature
----- Name (Print)	----- Name (Print)
----- Title	----- Title
----- Date	----- Date

APPENDIX D TO EXHIBIT A -- - ATA EXAM RESULTS IMPORT FORMATS

This ATA Exam Results Import Formats is attached hereto as Appendix D to the Exhibit A Statement of Work ("SOW") of the Master Services Agreement entered

into by and between (CHINESE CHARACTERS) Microsoft (China) Co., Ltd. and (CHINESE CHARACTERS) ATA TESTING AUTHORITY, BEIJING CO., LTD. ("ATA") on May 16, 2003. This ATA Exam Results Import Formats will be updated by Microsoft from time to time and ATA shall obey the ATA Exam Results Import Formats in accordance with the Master Services Agreement and SOW.

The term "candidate" provided in this ATA Exam Results Import Formats shall have the same meaning as the "Candidate" as defined in the SOW.

The terms "MCP EXAM PROVIDER", "MCP EXAM VENDOR", "EXAM VENDOR", and "VENDOR" shall refer to ATA as defined in the SOW.

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(CDDG IT LOGO)

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1. EXECUTIVE SUMMARY

This Document contains the standardized data definition for data exchange between Microsoft and the MCP exam providers. Currently the Certification Data Staging (CDS) system is designed to receive and validate the data from the exam vendors, making the data available to MSCert and ILR systems as well as exporting confirmation and error/exception data back to the vendors.

MSCert is a system that evaluates and certifies candidates whose qualifications match the current MCP requirements.

ILR is a new "Item Level Response" system that requires similar data feeds from the vendors.

1.1. WHAT IS CERTIFICATION DATA STAGING (CDS)?

CDS is a data warehouse intended to centralize the data feeds from the MCP Exam vendors, making data available to downstream systems such as MSCert and ILR.

1.2. CDS VENDOR INTERFACE

The CDS system acts as a data repository for downstream systems such as MSCert and ILR.

1. CDS does data type validation
2. CDS sends confirmation records for good and error/exception records to the vendors, e.g., 8 confirmation records out of 8 records received, good or bad.
3. CDS processes records from all vendors with the same format containing:
  - candidate profiles and profile changes
  - exam results at both the exam and item levels which include survey responses and comments
  - merge/unmerge records exclusively for MSCert processing
  - external certification records
  - receipt confirmation records
  - error/exception records
4. CDS gets receipt confirmation records from downstream systems such as MSCert and ILR.
5. CDS gets error/exception records from downstream systems such as MSCert and ILR.
6. CDS gets the corrected records from vendors.

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1.3. INTERFACE GOALS

The goals of this interface are:

- To define a standardized data layout for continued data exchanged between Microsoft and the vendors, and gain agreement between the parties so that we have an efficient data interchange, independent of what the exchange technology may be.

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2. VENDOR FEEDS TO CDS

CDS would get daily feeds from vendors, in form of a zip file. More than one zip file per vendor can be accepted by CDS, in a day.

We need to standardize the input content from all vendors so that we receive multiple files of the same format and process only one batch of records.

We expect the zip files to contain TAB delimited files, meeting the following file naming convention as an example:

- CEmmddx.dat\* for the CE data feed.
- SRmmddx.dat for the SR data feed.

\* mmdd stands for month and day and x, the version number.

<TABLE>  
<CAPTION>

DESCRIPTION	FORMAT FILE	SAMPLE FILE
-----	-----	-----
<S>	<C>	<C>
Exam Header + OMEGA	++	++
Exam Section Detail +	++	++
Exam Item Detail +	++	++
Exam Survey Response +	++	++

Exam Comments +	++	++
Profile Changes OMEGA	++	++
Profile Confirmation/Errors OMEGA	++	++

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<S>	<C>	<C>
* External Certification Changes OMEGA	++	++
* External Certification Confirmation/Errors OMEGA	++	++
* Merge/Unmerge OMEGA	++	++
* Merge/Unmerge Confirmation/Errors OMEGA	++	++

+ Used by ILR

OMEGA Used by MSCert

\* Optional files

2.1. FILE HEADER FOR ALL FEEDS

For CDS importing requirements to be met each header record should contain the 5 required fields plus the appropriate number of tabs such that the total number of columns represented in the header record is equal to the number of data columns in the file. For example, the CE record has 31 columns and the header record has 5. Therefore, tabs are required to fill the remaining 26 unused columns on the header record. As for the SR record that has 4 columns, no tabs will be required.

<CAPTION>					
COLUMN #	COLUMN NAME	DATA TYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	FileCreateDateTime	++	++	++	++
2	RowsInFile	++	++	++	++
3	FileType	++	++	++	++
4	FileFormatVersionNumber	++	++	++	++
5	FromVendorName*	++	++	++	++

2.1.1. CE DATA - EXAM HEADER

<CAPTION>					
COLUMN #	COLUMN NAME	DATA TYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	RecordType	++	++	++	++
4	VendorRegistrationId*	++	++	++	++
5	VendorClientCode	++	++	++	++
6	ExamNumber	++	++	++	++

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<CAPTION>					
COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
7	VendorLanguageCode	++	++	++	++
8	VendorExamFormCode	++	++	++	++
9	VendorExamVersionCode	++	++	++	++
10	SectionsOnExam	++	++	++	++
11	AttemptNumber	++	++	++	++
12	VendorDeliveryMediumCode	++	++	++	++
13	ExamDateTime	++	++	++	++
14	ExamDuration	++	++	++	++
15	VendorLocationCode	++	++	++	++
16	ScaledScore	++	++	++	++
17	VendorStandardDeviation	++	++	++	++
18	CorrectItemCount	++	++	++	++



19	IncorrectItemCount	++	++	++	++
20	SkippedItemCount	++	++	++	++
21	ExamGradeCode	++	++	++	++
22	MSExamVersionNumber	++	++	++	++
23	ExamPhaseCode*	++	++	++	++
24	RawScore	++	++	++	++
25	NotViewedItemCount	++	++	++	++
26	CandidateFirstName	++	++	++	++
27	CandidateMiddleName	++	++	++	++
28	CandidateLastName	++	++	++	++
29	CandidatePhone	++	++	++	++
30	CandidateEmail	++	++	++	++
31	InactiveItemCount	++	++	++	++

</TABLE>

2.1.2. SD DATA - EXAM SECTION DETAIL

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorRegistrationId	++	++	++	++
2	SectionNumber	++	++	++	++
3	SectionScored	++	++	++	++
4	ScoringAlgorithm	++	++	++	++
5	SectionScore	++	++	++	++
6	SectionStdError	++	++	++	++
7	SectionCorrect	++	++	++	++
8	SectionIncorrect	++	++	++	++
9	SectionSkipped	++	++	++	++
10	SectionPassedFailedFlag	++	++	++	++

</TABLE>

2.1.3. IT DATA - EXAM ITEM DETAIL

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorRegistrationId*	++	++	++	++
2	SectionNumber	++	++	++	++

</TABLE>

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COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
3	ItemName*	++	++	++	++
4	ItemStatus	++	++	++	++
5	ItemKey	++	++	++	++
6	ItemType	++	++	++	++
7	Response	++	++	++	++
8	ItemTime	++	++	++	++
9	LearningResource	++	++	++	++
10	ItemScore	++	++	++	++
11	ExamPhaseCode*	++	++	++	++
12	ItemScoreStatus	++	++	++	++

</TABLE>

2.1.4. SR DATA - SURVEY RESPONSE

Only get this data the first time someone takes the exam.

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	ExamPhaseCode*	++	++	++	++
2	VendorRegistrationId*	++	++	++	++
3	ItemName*	++	++	++	++
4	SurveyResponse	++	++	++	++

</TABLE>

2.1.5. EC DATA - COMMENTS

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	ExamPhaseCode*	++	++	++	++
2	VendorRegistrationId*	++	++	++	++
3	ItemName	++	++	++	++

4 Commenttext ++ ++ ++ ++  
 </TABLE>

2.1.6. CH DATA - PROFILE CHANGE

This is the Candidate Profile data for MSCert only.

<TABLE>  
 <CAPTION>

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	ProfileRevisionNumber	++	++	++	++
4	ProfileRevisionDateTime	++	++	++	++
5	Salutation	++	++	++	++
6	LastName	++	++	++	++

</TABLE>

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<TABLE>  
 <CAPTION>

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
7	FirstName	++	++	++	++
8	MiddleName	++	++	++	++
9	Suffix	++	++	++	++
10	JobTitle	++	++	++	++
11	CorrespondenceAddress1	++	++	++	++
12	CorrespondenceAddress2	++	++	++	++
13	CorrespondenceAddress3	++	++	++	++
14	CorrespondenceCity	++	++	++	++
15	CorrespondenceState Province	++	++	++	++
16	CorrespondenceZipCode	++	++	++	++
17	CorrespondenceCountry Code	++	++	++	++
18	CorrespondencePhone Prefix	++	++	++	++
19	CorrespondencePhone Number	++	++	++	++
20	CorrespondenceFaxPrefix	++	++	++	++
21	CorrespondenceFaxNumber	++	++	++	++
22	HomeAddress1	++	++	++	++
23	HomeAddress2	++	++	++	++
24	HomeAddress3	++	++	++	++
25	HomeCity	++	++	++	++
26	HomeStateProvince	++	++	++	++
27	HomeZipCode	++	++	++	++
28	HomeCountryCode	++	++	++	++
29	HomePhonePrefix	++	++	++	++
30	HomePhoneNumber	++	++	++	++
31	HomeFaxPrefix	++	++	++	++
32	HomeFaxNumber	++	++	++	++
33	BusinessAddress1	++	++	++	++
34	BusinessAddress2	++	++	++	++
35	BusinessAddress3	++	++	++	++
36	BusinessCity	++	++	++	++
37	BusinessStateProvince	++	++	++	++
38	BusinessZipCode	++	++	++	++
39	BusinessCountryCode	++	++	++	++
40	BusinessPhonePrefix	++	++	++	++
41	BusinessPhoneNumber	++	++	++	++
42	BusinessPhoneExtension	++	++	++	++
43	BusinessFaxPrefix	++	++	++	++
44	BusinessFaxNumber	++	++	++	++
45	MobilePhonePrefix	++	++	++	++
46	MobilePhoneNumber	++	++	++	++
47	CompanyName	++	++	++	++
48	PrimaryElectronicAddress	++	++	++	++
49	AATPNumber	++	++	++	++
50	AlternateVendorPersonID	++	++	++	++

</TABLE>

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2.1.7. XR DATA - EXTERNAL CERTIFICATION CHANGES

<TABLE>  
 <CAPTION>

COLUMN #	COLUMN NAME	DATA TYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	VendorRevisionDateTime	++	++	++	++
4	ExternalCertification TypeCode	++	++	++	++
5	ExternalCertification Value	++	++	++	++

</TABLE>

2.1.8. XC DATA - EXTERNAL CERTIFICATION CONFIRMATION/ERROR

COLUMN #	COLUMN NAME	DATA TYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	VendorValidationErrorID	++	++	++	++
4	VendorValidationError message	++	++	++	++
5	ConfirmationDateTime	++	++	++	++
6	ExternalCertification TypeCode	++	++	++	++

</TABLE>

2.1.9. PC DATA - PROFILE CONFIRMATION/ERROR

COLUMN #	COLUMN NAME	DATA TYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	VendorValidationErrorId	++	++	++	++
4	VendorValidationError Message	++	++	++	++
5	ConfirmationDateTime	++	++	++	++

</TABLE>

2.1.10. MR DATA - MERGE/UNMERGE

COLUMN #	COLUMN NAME	DATA TYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	RecordType	++	++	++	++
2	MergedIntoVendorPersonId	++	++	++	++
3	MergedFromVendorPersonId	++	++	++	++
4	MergedIntoPersonId	++	++	++	++
5	MergedFromPersonId	++	++	++	++
6	MergeDateTime	++	++	++	++

</TABLE>

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2.1.11. MC DATA - MERGE/UNMERGE CONFIRMATION/ERROR

COLUMN #	COLUMN NAME	DATA TYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	RecordType	++	++	++	++
2	MergedIntoVendorPersonId	++	++	++	++
3	MergedFromVendorPersonId	++	++	++	++
4	MergedIntoPersonId	++	++	++	++
5	MergedFromPersonId	++	++	++	++
6	VendorValidationErrorID	++	++	++	++
7	VendorValidationError Message	++	++	++	++
8	ConfirmationDateTime	++	++	++	++

</TABLE>

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3. CDS FEEDS TO VENDORS

This data contains receipt confirmation and data type validation error records from CDS as well as rejected exception records from MSCert and ILR.

We will be sending TAB delimited files, meeting the following file naming convention as an example:

- MCEmddx.dat for the MCE data.
- MPRmddx.dat for the MPR data feed.

\* mdd stands for month and day and x, the version number.

```
<TABLE>
<CAPTION>
DESCRIPTION          SAMPLE FILE
-----
<S>                  <C>
Exam Header          ++
confirmation
Profile Request      ++
External             ++
Certification Request
External             ++
Certification
Confirmation/Error
Profile              ++
Confirmation/Error
Merge/Unmerge Request ++
Merge/Unmerge        ++
Confirmation/Error
</TABLE>
```

3.1. RECORD HEADER FROM MICROSOFT

To be consistent with the inbound header requirement, each header record will contain the 5 required fields plus the appropriate number of tabs such that the total number of columns represented in the header record is equal to the number of data columns in the file. For example, the MCE record has 11 columns and the header

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record has 5. Therefore, tabs are required to fill the remaining 6 unused columns on the header record. 13

```
<TABLE>
<CAPTION>
COLUMN #  COLUMN NAME          DATA TYPE  NULLABILITY  SAMPLE DATA  DEFINITION
-----
<S>      <C>
1         FileCreateDateTime    ++          ++           ++            ++
2         RowsInFile            ++          ++           ++            ++
3         FileType              ++          ++           ++            ++
4         FileFormatVersionNumber ++          ++           ++            ++
5         FromVendorName*      ++          ++           ++            ++
</TABLE>
```

\* Vendor name here would be "Microsoft" or "MS"

3.1.1. MCE DATA - EXAM HEADER CONFIRMATION/ERROR FROM MICROSOFT

```
<TABLE>
<CAPTION>
COLUMN #  COLUMN NAME          DATA TYPE  NULLABILITY  SAMPLE DATA  DEFINITION
-----
<S>      <C>
1         VendorPersonId        ++          ++           ++            ++
2         PersonId              ++          ++           ++            ++
3         VendorRegistrationId  ++          ++           ++            ++
4         SectionNumber        ++          ++           ++            ++
5         ItemName              ++          ++           ++            ++
6         ExamPhaseCode        ++          ++           ++            ++
7         ErrorNumber          ++          ++           ++            ++
8         ErrorMessage         ++          ++           ++            ++
9         ConfirmationDateTime ++          ++           ++            ++
10        ResubmittedDateTime   ++          ++           ++            ++
</TABLE>
```

3.1.2. MPR DATA - PROFILE REQUEST FROM MICROSOFT

```
<TABLE>
<CAPTION>
COLUMN #  COLUMN NAME          DATA TYPE  NULLABILITY  SAMPLE DATA  DEFINITION
```

<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	ProfileRevisionNumber	++	++	++	++
4	ProfileRevisionDateTime	++	++	++	++
5	Salutation	++	++	++	++
6	LastName	++	++	++	++
7	FirstName	++	++	++	++
8	MiddleName	++	++	++	++
9	Suffix	++	++	++	++
10	JobTitle	++	++	++	++
11	CorrespondenceAddress1	++	++	++	++
12	CorrespondenceAddress2	++	++	++	++
13	CorrespondenceAddress3	++	++	++	++
14	CorrespondenceCity	++	++	++	++
15	CorrespondenceState Province	++	++	++	++
16	CorrespondenceZipCode	++	++	++	++
17	CorrespondenceCountry Code	++	++	++	++

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<S>	<C>	<C>	<C>	<C>	<C>
18	CorrespondencePhone Prefix	++	++	++	++
19	CorrespondencePhone Number	++	++	++	++
20	CorrespondenceFaxPrefix	++	++	++	++
21	CorrespondenceFaxNumber	++	++	++	++
22	HomeAddress1	++	++	++	++
23	HomeAddress2	++	++	++	++
24	HomeAddress3	++	++	++	++
25	HomeCity	++	++	++	++
26	HomeStateProvince	++	++	++	++
27	HomeZipCode	++	++	++	++
28	HomeCountryCode	++	++	++	++
29	HomePhonePrefix	++	++	++	++
30	HomePhoneNumber	++	++	++	++
31	HomeFaxPrefix	++	++	++	++
32	HomeFaxNumber	++	++	++	++
33	BusinessAddress1	++	++	++	++
34	BusinessAddress2	++	++	++	++
35	BusinessAddress3	++	++	++	++
36	BusinessCity	++	++	++	++
37	BusinessStateProvince	++	++	++	++
38	BusinessZipCode	++	++	++	++
39	BusinessCountryCode	++	++	++	++
40	BusinessPhonePrefix	++	++	++	++
41	BusinessPhoneNumber	++	++	++	++
42	BusinessPhoneExtension	++	++	++	++
43	BusinessFaxPrefix	++	++	++	++
44	BusinessFaxNumber	++	++	++	++
45	MobilePhonePrefix	++	++	++	++
46	MobilePhoneNumber	++	++	++	++
47	CompanyName	++	++	++	++
48	PrimaryElectronicAddress	++	++	++	++
49	AATPNumber	++	++	++	++

3.1.3. MXR DATA - EXTERNAL CERTIFICATION FROM MICROSOFT

<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	VendorRevisionDateTime	++	++	++	++
4	ExternalCertification TypeCode	++	++	++	++
5	ExternalCertification Value	++	++	++	++

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### 3.1.4. MXC DATA - EXTERNAL CERTIFICATION CONFIRMATION/ERROR FROM MICROSOFT

<TABLE>  
<CAPTION>

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	ErrorNumber	++	++	++	++
4	ErrorMessage	++	++	++	++
5	ConfirmationDateTime	++	++	++	++
6	ExternalCertification TypeCode	++	++	++	++

</TABLE>

### 3.1.5. MPC DATA - PROFILE CONFIRMATION/ERROR FROM MICROSOFT

<TABLE>  
<CAPTION>

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	VendorPersonId	++	++	++	++
2	PersonId	++	++	++	++
3	ErrorNumber	++	++	++	++
4	ErrorMessage	++	++	++	++
5	ConfirmationDateTime	++	++	++	++

</TABLE>

### 3.1.6. MMR DATA - MERGE/UNMERGE FROM MICROSOFT

<TABLE>  
<CAPTION>

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	RecordType	++	++	++	++
2	MergedIntoVendorPersonId	++	++	++	++
3	MergedFromVendorPersonId	++	++	++	++
4	MergedIntoPersonId	++	++	++	++
5	MergedFromPersonId	++	++	++	++
6	MergeDateTime	++	++	++	++

</TABLE>

### 3.1.7. MMC DATA - MERGE/UNMERGE CONFIRMATION/ERROR FROM MICROSOFT

<TABLE>  
<CAPTION>

COLUMN #	COLUMN NAME	DATATYPE	NULLABILITY	SAMPLE DATA	DEFINITION
<S>	<C>	<C>	<C>	<C>	<C>
1	RecordType	++	++	++	++
2	MergedIntoVendorPersonId	++	++	++	++
3	MergedFromVendorPersonId	++	++	++	++
4	MergedIntoPersonId	++	++	++	++
5	MergedFromPersonId	++	++	++	++
6	ErrorNumber	++	++	++	++
7	ErrorMessage	++	++	++	++
8	ConfirmationDateTime	++	++	++	++

</TABLE>

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### 4. ADDENDUM

#### 4.1. SPECIAL ATTENTION

1. The ExamPhaseCode is paramount to the success of ILR. This field is part of the definition of a candidate/exam and absolutely must be reported accurately.
2. Prescore, Rescore and Live data should be returned in the daily feeds. Currently, only Live data is returned daily and special requests are made for Prescore and Rescore.
3. Currently, Prometric reports XML responses (from IIT exams) in a separate file with an .MSX extension. XML data needs to be returned in the proper file in the proper column.
4. Currently, Vue is stripping and escaping characters from the XML responses. Nothing should be escaped and the only things that should be stripped are line feeds, carriage returns and tabs (white space). The non-white-space XML must be returned intact. Stripping out double quotes (") and escaping tabs will invalidate the XML responses.

5. All items associated with a CandidateExam must be within the IT feed. This will include 'display' items, non-viewed items, etc. Currently some items are being stripped from the feed file based on criteria that cannot be tracked within the feed files.
6. Exam results sent without the item-level detail associated will be problematic, resulting as exceptions sent back to the vendor.

#### 4.2. LIST OF ERROR NUMBERS/MESSAGES FROM CDS

Following is the categorization of error numbers generated by CDS:

ERRORID RANGE	DESCRIPTION
<S>	<C>
1000 - 1999	Multi data type related errors.
2000 - 2999	Profile related errors.
3000 - 3099	Exam Header related errors.
3100 - 3199	Exam Item related errors.
3200 - 3299	Exam Survey Response related errors
3300 - 3399	Exam Comments related errors.
3400 - 3499	Exam Section Detail related errors. (Not used by MSCert or ILR but reserved for the future)
4000 - 4999	Merge related errors.
6000 - 6999	External Certification related errors.

#### ATA EXAM RESULTS IMPORT FORMATS

++ = redacted item

Following is the list of error numbers that are generated by CDS and sent to the vendors, and their meaning:

ERRORID	DESCRIPTION
<S>	<C>
1000	Invalid or missing VendorRegistrationId
1001	Missing or Invalid PersonId
2000	Missing or Invalid VendorPersonId
2001	Missing or Invalid First Name
2002	Missing or Invalid Last Name
2003	Missing or Invalid Address1
2004	Double quote characters found in address or name
2005	Missing or Invalid City
2006	Invalid Postal Code
2007	Invalid Country Code
2008	VendorPersonId and PersonId does not match to the same candidate
3000	Invalid or missing Exam Grade Code
3001	Invalid or missing Exam number
3002	Invalid or missing Exam Date
3003	Invalid or missing raw score
3004	Invalid exam duration
3005	Invalid or missing vendor client code
3006	Invalid or missing VendorLanguage
3007	First time test taker, PersonId in MSCert but FirstName or LastName don't match MSCert
3008	Invalid Record Type
3010	Missing or invalid VendorRegistrationIdentifier
3011	Missing or invalid VendorPersonIdentifier
3012	Missing CandidateFirstName
3013	Missing CandidateLastName
3014	Non-unique CandidateExam Key value
3015	Unrecognized Published Exam Key values
3016	Missing or invalid ExamPhaseCode
3017	Missing MExamVersionNumber
3018	Missing VendorExamFormCode
3019	Missing ScaledScoreNumber
3020	Missing CorectItemCount
3021	Missing IncorrectItemCount
3022	Missing SkippedItemCount
3023	Missing NotViewedItemCount
3026	No Items for exam
3028	Missing VendorIdentifier
3029	Missing VendorLocationCode
3030	Misreported IncorrectItemCount
3031	Misreported CorrectItemCount
3032	Misreported SkippedItemCount
3033	Misreported NotViewedItemCount
3034	Misreported RawScore
3035	Misreported InactiveItemCount

ATA EXAM RESULTS IMPORT FORMATS

++ = redacted item

```

<TABLE>
<CAPTION>
ERRORID          DESCRIPTION
-----
<S>              <C>
3100             Orphaned Item record
3101             Null VendorRegistrationIdentifier
3102             Null ExamPhaseCode
3103             Null VendorIdentifier
3104             Null ItemName
3105             Null ItemStatus
3106             Null ItemKey
3108             Null ItemScoreStatus
3109             Null ItemType
3110             Null ResponseText
3111             Null ItemDuration
3112             Null ItemScore
3200             Null VendorRegistrationIdntifier
3201             Null ExamPhaseCode
3202             Null VendorIdentifier
3203             Orphaned SurveyResponse
3204             Null SurveyResponseText
3300             Null VendorRegistrationIdntifier
3301             Null ExamPhaseCode
3302             Null VendorIdentifier
3303             Null CommentText
3304             Orphaned comment
4000             Invalid MergeFromVendorPersonId
4001             Invalid MergeFromPersonId
4002             Invalid or missing MergeDate
4003             MergeFromVendorPersonId and MergeIntoVendorPersonId are the same
6000             Invalid or missing External Certification
</TABLE>
    
```

4.3. FILE LEVEL CONFIRMATION

Apart from the record level confirmation, CDS also creates and sends out file level confirmation. This confirmation file contains the list of files received and processed by CDS.

Sample of a confirmation file:

++

ATA EXAM RESULTS IMPORT FORMATS

++ = redacted item

(CHINESE CHARACTERS) MICROSOFT (CHINA) CO., LTD.	(CHINESE CHARACTERS) ATA TESTING AUTHORITY, BEIJING CO., LTD
-----	-----
Signature	Signature
-----	-----
Name (Print)	Name (Print)
-----	-----
Title	Title
-----	-----
Date	Date

Appendix E to Exhibit A: REPORT KEY

This Report Key is attached hereto as Appendix E to the Exhibit A Statement of Work ("SOW") of the Master Services Agreement entered into by and between (CHINESE CHARACTERS) Microsoft (China) Co., Ltd. and(CHINESE CHARACTERS) ATA Testing Authority, Beijing Co., Ltd. ("ATA") on May 16, 2003. This Report Key may be updated by Microsoft from time to time and ATA shall obey the Report Key in accordance with the Master Services Agreement and SOW.

The term "candidate" provided in this Report Key shall have the same meaning as the "Candidate" as defined in the SOW.



Appendix E to Exhibit A Report key

Report Key

<TABLE> <CAPTION> TYPE	REPORT TITLE	DESCRIPTION	BENCHMARK	FREQUENCY	DEADLINE	FORMAT
<S> KPIS	<C> Phone Service Level	<C> Broken out by RESC monthly	<C> 80% answered within 90 seconds	<C> Monthly	<C> First Monday after MS Fiscal month closes.	<C> Mutually agreed upon
	Number of calls	Broken out by RESC monthly	N/A	Monthly	First Monday after MS Fiscal month closes.	Mutually agreed upon
	# of Exams	Total number of exams by RESC or region	N/A	Monthly	10th business day	Mutually agreed upon
	Number of Registrations	Total number of registrations, monthly by RESC, broken out by phone (include fax) versus internet.	N/A	Monthly	First Monday after MS Fiscal month closes.	Mutually agreed upon
	Exam Service Level	Broken out by RESC.	98% on time	Monthly	10th business day	Mutually agreed upon (part of the Monthly Status Report)
	Exam Data Sent	This measures the difference between the time a candidate completed an exam to the time that the exam record was sent to Microsoft. This metric is broken out by RESC.	- 90% within 72 hrs; - 100% within 120 hrs AND no more than 500 late records; - 100% within 336 hours (14 days)	Monthly	10th business day	Mutually agreed upon (part of the Monthly Status Report)

Appendix E to Exhibit A Report key

<TABLE> <CAPTION> TYPE	REPORT TITLE	DESCRIPTION	BENCHMARK	FREQUENCY	DEADLINE	FORMAT
<S> VOUCHERS	<C> MS Sub Remit	<C> MS Subsidiaries can offer exams to end users and pay for them once they are redeemed. This report details those discounted exams that have been requested by a MS Sub and including a roll up of usage. This report should include those exams ordered by MS Corporate.	<C> N/A	<C> Monthly	<C> 10th business day	<C> EDP design with MS approval.
	MS Orders	This report should list all orders placed for discounted exams by Microsoft. Subs and Corporate	N/A	Monthly	10th business day	EDP design with MS approval
	Discount Usage	Detail of candidates that have taken discounted exams. See Discount section of SOW	N/A	Monthly	10th business day	EDP design with MS approval
	10/20% Discount Report	List of exams purchased that receive 10 or 20% discounts	N/A	Monthly	10th business day	EDP design with MS approval

	Forfeiture Report	EDP to generate a report of forfeited funds. These funds should also be visible via MERT.	N/A	Monthly	10th business day	EDP design with MS approval
EXAM DEV/ PUBLISHING	# of exams Published	Total number of exams published, with titles, in order to track progress against exam publishing cap.		Monthly	MBR	EDP design with MS approval
CHANNEL	Map of TC locations	This report will be made with MS Map Point--to be supplied to EDP by Microsoft.	N/A	Quarterly	15 business day of the first month of the new quarter.	EDP design with MS approval
	Testing Center Summary	Summary of Testing Centers rolled up by MS Region listing number of centers and seats in that region.	N/A	Monthly	10th Business Day	EDP design with MS approval
FINANCE	MERT	There are three reports defined in the MERT Addendum	N/A	NA	N/A	NA
	Finance Summary	This is a summary of all Microsoft Exam activity. See Finance section of the SOW.	N/A	Monthly	11th business day	MS Designed

</TABLE>

3

Appendix E to Exhibit A Report key

<TABLE>  
<CAPTION>

TYPE	REPORT TITLE	DESCRIPTION	BENCHMARK	FREQUENCY	DEADLINE	FORMAT
<S> OTHER	<C> Escalation Report Summary	<C> This report rolls up escalations captured. See Escalations under the Quality Assurance Section of the SOW. This should include any issues regarding cheating or piracy.	<C> Escalations resolved within 48 hours.	<C> Monthly	<C> 15th of each Month	<C> EDP design with MS approval
	Promotion Report	As MS runs promotions, the Service Provider will be expected to run reports detailing the usage/success of the promotion.	N/A	TBD	TBD	EDP design with MS approval
	Customer Sat.	Monthly survey of Microsoft candidates. Current format is to survey customer sat with the call center, however, EDP and Microsoft can elect to change the format.		Monthly		EDP design with MS approval
	Open Issues/Actions Log	This log should list all open issues regarding the Microsoft program. EDP to maintain.		on-going		EDP design with MS approval
	Monthly Status report	roll up of all issues for the month, including key statistics		monthly		EDP design with MS approval
	Test Center Adherence	EDP will report these incidents in the monthly Business Reviews.	N/A	Quarterly	Available for Service Provider's Quarterly Business Review	EDP design with MS approval

</TABLE>

4

----- Signature -----	----- Signature -----
----- Name (Print) -----	----- Name (Print) -----
----- Title -----	----- Title -----
----- Date -----	----- Date -----

Appendix F - ATA Price List

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APPENDIX F - ATA PRICE LIST

A. OVERVIEW

This section of the document describes the pricing, invoicing and payment details between ATA and MCCL.

B. ROYALTY PAYMENT

The unit royalty invoiced to ATA will be as follows. Pricing is subject to change by MCCL at MCCL's sole discretion.

Batch One:

<TABLE>  
<CAPTION>

COURSE	SKU	COURSE NAME	MCP EXAM (CHOOSE ONE)	NET UNIT ROYALTY FEE (RMB)
<S>		<C>	<C>	<C>
T66-00008		C# Programming Language	N/A	++
T66-00009		VB.NET Programming Language	N/A	++
T66-00010		Fundamentals of Network Operating System Administration	N/A	++
T66-00011		Implementing and Administering an Operating System	70-270	++
T66-00028		Implementing and Administering a Network Operating System	70-210/70-215	++
T66-00013		Implementing and Administering Network Infrastructure	70-216	++
T66-00014		Managing a Network Environment	70-218	++
T66-00015		Implementing and Administering Enterprise Databases	70-228	++
T66-00016		Introduction to Programming	N/A	++
T66-00017		Relational Database Application Fundamentals	N/A	++

Appendix F - ATA Price List

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Batch Two:

<TABLE>  
<CAPTION>

COURSE	SKU	COURSE NAME	MCP EXAM	NET UNIT ROYALTY FEE (RMB)
<S>		<C>	<C>	<C>
T66-00041		Programming with Microsoft .NET Framework (VB.Net)	N/A	++
T66-00043		Programming with Microsoft .NET Framework (C#)	N/A	++
T66-00045		Programming with ADO.NET	N/A	++
T66-00047/49		Developing Web Apps for .NET +Developing Secure Web Applications	70-305/70-315	++
T66-00051		Building COM+ Applications using Microsoft .NET Enterprise Services	N/A	++
T66-00053		Developing Applications for Windows(C#)	70-316	++
T66-00055		Developing Applications for Windows(VB.NET)	70-306	++
T66-00033		Programming a Microsoft SQL Server 2000 Database	70-229	++
T66-00029		Implementing and Administering Microsoft Windows 2000 Directory Services	70-217	++

<TABLE>  
<CAPTION>

COURSE NAME	ROYALTY FEE (RMB)
Windows XP	++
Word 2002	++
Excel 2002	++
PowerPoint 2002	++
ProntPage 2002	++
Office XP Conformity	++

Appendix F - ATA Price List

++ = redacted item

C. REPORTING AND INVOICING

At the end of each financial month (defined in Appendix H of the SOW) ATA will provide MCCL with full reporting of all activities as listed in Appendix L, ATA Revenue Reconciliation Reports. All such reporting will be provided in the form of an Excel workbook. All reports shall be timely, complete and accurate. MCCL reserves the right to audit as provided in the Master Service Agreement and Exhibits attached thereto.

On receipt of this information MCCL will generate an invoice for the total Licensing Fees due based on the number of printed Courseware Materials shipped in that month. The invoice will be sent to ATA for payment. ATA shall be fully responsible for and liable to MCCL for the payment in full of the due amount, net 45 days upon receipt of the invoice. MCCL shall not be responsible for any invoices incurred by ATA and/or ATA's partners.

D. RETURN ALLOWANCE

MCCL will allow a 2% allowance on returns for the term of the Master Service Agreement. Any returns over 2% will not be accepted. Returns will be reported to MCCL at month end as listed in Appendix L, ATA Revenue Reconciliation Report. The returned units will be deducted from the total revenue units shipped to calculate the net units shipped for the given month.

(CHINESE CHARACTERS)  
MICROSOFT (CHINA) CO., LTD.

(CHINESE CHARACTERS)  
ATA TESTING AUTHORITY, BEIJING CO., LTD

----- Signature -----	----- Signature -----
----- Name (Print) -----	----- Name (Print) -----
----- Title -----	----- Title -----
----- Date -----	----- Date -----

Appendix G to Exhibit A

CONTRACT NUMBER: \_\_\_\_\_

MICROSOFT (CHINA) CO., LTD.  
INDEPENDENT CONTRACTOR AGREEMENT

This Independent Contractor Agreement (the "Agreement") is attached hereto as Appendix G to the Exhibit A Statement of Work ("SOW") of the Master Services Agreement entered into by and between (CHINESE CHARACTERS) MICROSOFT (CHINA) CO., LTD. ("MICROSOFT CHINA") and (CHINESE CHARACTERS)ATA TESTING AUTHORITY, BEIJING CO., LTD. ("CONTRACTOR") on May 16, 2003. ATA shall obey this Agreement in accordance with the Master Services Agreement and SOW.

MICROSOFT CHINA and CONTRACTOR agree as follows:

1. WORK

1.1 MICROSOFT CHINA hereby entrusts CONTRACTOR to carry out, complete and deliver the work in accordance with the schedule set forth below in this Agreement (the "WORK").

1.2 Being entrusted by MICROSOFT CHINA in accordance with the provisions of this Agreement, CONTRACTOR shall carry out, complete and deliver the WORK in accordance with the schedule set forth below and all WORK shall be completed on or before June 30th 2004.

1.3 The WORK shall conform to the specifications and delivery schedule. In the event that MICROSOFT CHINA desires to make changes to the WORK specifications and/or delivery schedule during the term of this Agreement, MICROSOFT CHINA shall so notify CONTRACTOR, and both parties shall agree in writing on necessary adjustments, if any, to the other terms of this Agreement

required to accommodate such changes.

## 2. OWNERSHIP OF WORK BY MICROSOFT CHINA

To the extent that the WORK delivered to MICROSOFT CHINA hereunder includes material subject to copyright, CONTRACTOR agrees that the WORK is done as a work "entrusted" by MICROSOFT CHINA as the term "entrust" is used under the Chinese copyright law, especially Article 17 of the Copyright Law of the People's Republic of China (with the latest revisions by the National People's Congress on October 27, 2001) and Article 11 of the Computer Software Protection Regulation (promulgated by the State Council on December 20, 2001). CONTRACTOR hereby agrees that MICROSOFT CHINA shall own, on an exclusive basis, all copyrights in the WORK and all other rights in the intellectual property developed by CONTRACTOR in the WORK. If MICROSOFT CHINA will not own all copyrights and all other types of intellectual property rights in the WORK (including patents, trade secrets, and other proprietary rights therein), for whatever reasons, pursuant to the CONTRACTOR's such agreement as provided for in the

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### Appendix G to Exhibit A

preceding sentence of this Section 2, to the extent that the WORK includes material subject to copyright, patent, trade secret, or other proprietary right protection, CONTRACTOR hereby assigns to MICROSOFT CHINA and its successors or assignees all right, title and interest in and to the WORK, including all copyrights, patents, trade secrets, and other proprietary rights therein (including renewals thereof). CONTRACTOR shall execute and deliver such instruments and take such other action as may be required and requested by MICROSOFT CHINA to carry out the assignment contemplated by this paragraph. Any documents, magnetically or optically encoded media, or other materials created by CONTRACTOR pursuant to this Agreement shall be owned by MICROSOFT CHINA and subject to the terms of this section.

## 3. CUSTOMER INFORMATION

3.1 CONTRACTOR acknowledges and agrees that customer information acquired by CONTRACTOR, if any, in connection with the WORK, including, without limitation, MICROSOFT CHINA customer lists and updates, personally identifiable information (customer name, e-mail address, postal address, telephone number, mother's maiden name, etc.), transactional data, sales and activity information, and profile information (collectively, "Customer Information") shall be considered proprietary information of MICROSOFT CHINA and all right, title and interest in the Customer Information is owned by MICROSOFT CHINA.

3.2 CONTRACTOR shall use any such Customer Information only as necessary to perform the WORK in accordance with this Agreement and shall maintain such Customer Information in strict confidence in accordance with the provisions of Section 6 hereinbelow. CONTRACTOR will not share any Customer Information that is collected or possessed by CONTRACTOR with any third parties for any reason whatsoever. If CONTRACTOR is served with a court order compelling disclosure of any customer information, CONTRACTOR will oppose the order, will notify MICROSOFT CHINA of such an order, and will provide MICROSOFT CHINA with the opportunity to intervene before CONTRACTOR files any response to the order.

3.3 CONTRACTOR will take reasonable steps to protect Customer Information in CONTRACTOR'S possession, if any, from unauthorized use, access, disclosure, alteration or destruction. Security measures shall include access controls, encryption or other means, where appropriate. CONTRACTOR agrees to conduct an audit on at least an annual basis to evaluate the security of Customer Information in CONTRACTOR'S possession, if any, and to verify that the terms of this Agreement with respect to Customer Information are being followed.

3.4 CONTRACTOR shall abide by all applicable Chinese laws and regulations, including the Anti-Unfair Competition Law, and international law and practice, when CONTRACTOR is collecting, holding or processing any of the Customer Information.

## 4. REPRESENTATIONS AND WARRANTIES

CONTRACTOR hereby represents and warrants that:

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### Appendix G to Exhibit A

(a) CONTRACTOR is a legal person duly established, validly existing and in good standing under the laws of China;

(b) CONTRACTOR is properly holding a business license, the validity of which will last throughout the term of this Agreement;

(c) CONTRACTOR possesses full legal right, power and authority, and has taken all appropriate and necessary corporate action to authorize the execution of this Agreement and to perform the obligations under this Agreement;

(d) CONTRACTOR is established with sufficient registered capital and will have sufficient funds to carry out the obligations under this Contract;

(e) CONTRACTOR's performance of the WORK pursuant to this Agreement will not violate any agreement or obligation between CONTRACTOR and a third party;

(f) the WORK will either be originally created by CONTRACTOR, or that CONTRACTOR will obtain all necessary rights to the WORK to transfer ownership to MICROSOFT CHINA as required by Section 2 hereinabove;

(g) the WORK will not infringe any copyright, patent, trade secret, or other proprietary right held by any third party;

(h) all work provided by CONTRACTOR in connection with the WORK will be performed in a professional manner and shall be of a high grade, nature, and quality;

(i) CONTRACTOR warrants that CONTRACTOR has not and will not take any actions that: (i) create, or purport to create, any obligation on behalf of MICROSOFT CHINA, or (ii) grant, or purport to grant, any rights or immunities to any third party under MICROSOFT CHINA's intellectual property or proprietary rights. By way of example but without limitation to the foregoing, CONTRACTOR shall not incorporate any Publicly Available Software in whole or in part into any part of the WORK, or use Publicly Available Software in whole or in part in the development of any part of the WORK in a manner that may subject the WORK, in whole or in part, to all or part of the license obligations of any Publicly Available Software. "Publicly Available Software" means any software that requires as a condition of use, modification and/or distribution of such software that such software or other software incorporated into, derived from or distributed with such software (a) be disclosed or distributed in source code form; (b) be licensed for the purpose of making derivative works; or (c) be redistributable at no charge;

(j) CONTRACTOR is specifically advised that MICROSOFT CHINA is an equal opportunity employer and promotes a diverse work environment. CONTRACTOR understands that MICROSOFT CHINA will not tolerate any remark, gesture, or behavior by CONTRACTOR that are discriminatory toward or offensive to individuals on the basis of gender, race, color, national origin, age, religion, or disability; and

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#### Appendix G to Exhibit A

(k) if CONTRACTOR performs its obligations on MICROSOFT CHINA's property, CONTRACTOR warrants that individuals placed at MICROSOFT CHINA have not been convicted of a felony as an adult within the last seven (7) years.

#### 5. INDEMNITY

CONTRACTOR agrees to indemnify, defend, and hold MICROSOFT CHINA and its successors, officers, directors and employees harmless from any and all actions, causes of action, claims, demands, costs, liabilities, expenses and damages (including attorney's fees) arising out of, or in connection with (i) any claim that the WORK infringes any copyright, patent, trade secret, trademark, or other legal right of any third party, or (ii) any other claim that, if true, would constitute a breach of CONTRACTOR's representations or warranties set forth in Section 4 hereinabove.

#### 6. CONFIDENTIALITY

6.1 CONTRACTOR agrees that at all times during the term of this Agreement, and for five (5) years thereafter, CONTRACTOR will hold in strictest confidence, and will not use or disclose to any third party, any confidential information of MICROSOFT CHINA. The term "Confidential Information of MICROSOFT CHINA" shall mean all non-public information that MICROSOFT CHINA designates as being confidential, or which, under the circumstances of disclosure ought to be treated as confidential. "Confidential Information of MICROSOFT CHINA" includes, without limitation to, the terms and conditions of this Agreement, information relating to software or hardware products released or unreleased by MICROSOFT CHINA or the affiliates of MICROSOFT CHINA, marketing or promotion of any product of MICROSOFT CHINA or of the affiliates of MICROSOFT CHINA, business policies or practices of MICROSOFT CHINA or of the affiliates of MICROSOFT CHINA, customers or suppliers of MICROSOFT CHINA or of the affiliates of MICROSOFT CHINA, or information received from others that MICROSOFT CHINA or the affiliates of MICROSOFT CHINA are obligated to treat as confidential. An "affiliate" means any person, partnership, joint venture, corporation or other form of enterprise, domestic or foreign, including but not limited to subsidiary, that directly or indirectly, controls or is controlled by, or is under common control of MICROSOFT CHINA. If CONTRACTOR has any questions as to what comprises such confidential information, CONTRACTOR agrees to consult with MICROSOFT CHINA. "Confidential Information of MICROSOFT CHINA" shall not include information that was known to CONTRACTOR prior to MICROSOFT CHINA's disclosure to CONTRACTOR, or information that becomes publicly available through no fault of CONTRACTOR.

6.2 Press Releases/Publicity. CONTRACTOR shall not issue press releases or publicity that relates to this Agreement. Such press statements shall be released by MICROSOFT CHINA, at its sole discretion. CONTRACTOR shall not use the name "Microsoft", "MICROSOFT CHINA", or "MICROSOFT CORPORATION" in any kinds of brochures, advertisements, websites, news releases, publicity or presentations to any third parties. CONTRACTOR may, however, with the prior written consent of MICROSOFT CHINA, use the name "MICROSOFT CHINA" in client

Appendix G to Exhibit A

and/or in written response to requests for client lists as part of the Request for Proposals, Requests for Information, etc.

6. TERMINATION

6.1 MICROSOFT CHINA may terminate this Agreement and cancel CONTRACTOR's obligations hereunder at any time without cause and without further obligation to CONTRACTOR except for payment due for obligations performed prior to the date of such termination (not to exceed the amount payable for the WORK milestone immediately following the last accepted WORK milestone, if any). In the event of termination of this Agreement and upon request by MICROSOFT CHINA, CONTRACTOR agrees to turn over to MICROSOFT CHINA all Confidential Information of MICROSOFT CHINA and Customer Information in CONTRACTOR's possession, and all WORK, whether completed or in progress, within ten (10) days of such termination.

6.2 In the event of termination of this Agreement for any reason, Sections 2, 3, 4, 5, 6, 8 and 9.6 of this Agreement shall survive termination.

8. INSURANCE

8.1 CONTRACTOR warrants that it shall maintain sufficient insurance coverage to enable it to meet its obligations created by this Agreement and by law, and the Contractor shall for the term of this Agreement be insured to the full extent of any potential liability, loss or damages relating to the performance of the Contractor's obligations pursuant to this Agreement. Without limiting the foregoing, to the extent available in China, CONTRACTOR warrants that such insurance shall include the following lines of coverage (with minimum limits equal to One Million United States Dollars (US\$1,000,000.00) per occurrence) to the extent this Agreement creates exposures generally covered by these insurance policies: Commercial General Liability (Occurrence Form), Automobile Liability, Workers' Compensation (statutory limits), and Employer's Liability.

8.2 In addition, if:

(a) the WORK consists of, includes, or results in any intellectual property (including, without limitation to, material capable of being protected by copyright, trade secret, or trademark law); or

(b) CONTRACTOR's performance of the WORK constitutes such professional consulting work as:

(i) system development, design, or maintenance;

(ii) technical support; or

(iii) financial services (e.g., collections and transaction authorization)

then CONTRACTOR shall maintain, to the extent available in China, Professional Liability and Errors & Omissions Liability Insurance with policy limits of not less than Two Million Dollars (US\$2,000,000.00) for each claim with a deductible of no more than Twenty-five Thousand Dollars (US\$25,000.00). Such insurance shall include coverage for

Appendix G to Exhibit A

infringement of any proprietary right of any third party, including but without limitation to copyright, trade secret, and trademark infringement as related to CONTRACTOR's performance under this Agreement. The Professional Liability and Errors & Omissions Liability Insurance retroactive coverage date will be no later than the Effective Date. CONTRACTOR shall maintain an extended reporting period providing that claims first made and reported to the insurance by CONTRACTOR within one (1) year after MICROSOFT CHINA's final payment for the WORK will be deemed to have been made during the policy period.

8.3 Upon request, CONTRACTOR shall deliver to MICROSOFT CHINA proof of such coverage. In the event that CONTRACTOR's proof evidences coverage which MICROSOFT CHINA reasonably determines to be less than that required to meet CONTRACTOR's obligations created by this Agreement, then CONTRACTOR agrees that it shall promptly acquire such coverage and notify MICROSOFT CHINA in writing thereof.

9. GENERAL

9.1 CONTRACTOR agrees that upon termination of this Agreement, CONTRACTOR will return to MICROSOFT CHINA all drawings, blueprints, notes, memoranda, specifications, software, electronic media, designs, devices, documents including on-line documentation, and any other material containing or disclosing any confidential or proprietary information of MICROSOFT CHINA. CONTRACTOR will not retain any such materials without MICROSOFT CHINA's written approval.

9.2 CONTRACTOR is an independent contractor for MICROSOFT CHINA. Nothing in this Agreement shall be construed as creating an employer-employee relationship or principal-agent relationship, as a guarantee of future employment, or as a limitation upon MICROSOFT CHINA's sole discretion to terminate this Agreement at any time without cause. CONTRACTOR further agrees to be responsible for all of CONTRACTOR's state and local taxes, withholding, social security, insurance, and other benefits. Upon request, CONTRACTOR shall provide MICROSOFT CHINA with satisfactory proof of independent contractor status (including a valid business license). In the event that taxes are required to be withheld on payments made hereunder, MICROSOFT CHINA may deduct such taxes from the amount owed to CONTRACTOR and pay them to the appropriate taxing authority. MICROSOFT CHINA shall in turn promptly secure and deliver to CONTRACTOR an official receipt for any taxes withheld. MICROSOFT CHINA will use reasonable efforts to minimize such taxes to the extent permissible under applicable law.

9.3 CONTRACTOR is free to engage in other independent contracting activities, provided that CONTRACTOR does not engage in any such activities which are inconsistent with any provisions hereof, or that so occupy CONTRACTOR's time as to interfere with the proper and efficient performance of CONTRACTOR's obligations hereunder.

9.4 CONTRACTOR may not assign this Agreement, or any rights or obligations hereunder, whether by operation of contract, law, or otherwise, except with the express

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Appendix G to Exhibit A

written consent of MICROSOFT CHINA, and any attempted assignment by CONTRACTOR in violation of this Section shall be void. For the purposes of this Agreement, an "assignment" by CONTRACTOR under this Section shall be deemed to take place in situations including, but without limitation to, each of the following: (a) a change in beneficial ownership of CONTRACTOR, greater than that of twenty percent (20%) (whether in a single transaction or series of transactions); (b) a merger of CONTRACTOR with another party, whether or not CONTRACTOR is the surviving entity; (c) the acquisition of more than twenty percent (20%) of CONTRACTOR's equity ownership by another party (whether in a single transaction or series of transactions); and (d) the sale or other transfer of more than fifty percent (50%) of CONTRACTOR's assets (whether in a single transaction or series of transactions). In the event of such assignment or attempted assignment by CONTRACTOR, MICROSOFT CHINA shall have the right to immediately terminate this Agreement.

9.5 CONTRACTOR agrees that MICROSOFT CHINA will not be responsible for loss of or damage to any personal property located on MICROSOFT CHINA premises belonging to CONTRACTOR.

9.6 The formation, validity, interpretation and performance of this Contract and the disputes arising under this Contract shall be governed by the published and publicly available laws of the People's Republic of China.

If a dispute arises in connection with the interpretation or implementation of this Agreement, either party may submit the dispute for arbitration to the China International Economic and Trade Arbitration Commission (the "CIETAC") for arbitration in accordance with the rules of arbitration of CIETAC. The place of arbitration will be Beijing, the People's Republic of China. The arbitration proceedings shall be conducted in English. The arbitral award will be final and binding on both parties.

There shall be three (3) arbitrators. Within thirty (30) days after giving or receiving the demand for arbitration, CONTRACTOR and MICROSOFT CHINA shall each select one (1) arbitrator. The third arbitrator shall be appointed by the two arbitrators within thirty (30) days after both arbitrators have been selected, or, failing agreement, the appointment shall be made as provided in the Rules. Such third arbitrator shall be a non-Chinese and non-American citizen who is able to use English as his/her working language.

If either party employs attorneys to enforce any rights arising out of or relating to this Agreement, the prevailing party will be entitled to recover reasonable costs and attorneys' fees.

9.7 This Agreement does not constitute an offer by MICROSOFT CHINA and it shall not be effective until signed by both parties. This Agreement constitutes the entire agreement between parties with respect to the subject matter hereof and merges all prior and contemporaneous communications. It shall not be modified except by a written agreement signed by CONTRACTOR and MICROSOFT CHINA by their duly authorized representatives.

7 of 8

Appendix G to Exhibit A

9.8 This Agreement shall be executed in English and in Chinese versions simultaneously in [ ] counterparts in each language. In case of any inconsistency between the two versions, the English version shall prevail.

IN WITNESS WHEREOF, each party hereto has caused this Agreement to be executed by its duly authorized representative on the date first written above.



(CHINESE CHARACTERS)  
MICROSOFT (CHINA) CO., LTD.

(CHINESE CHARACTERS)  
ATA TESTING AUTHORITY, BEIJING CO., LTD.

-----  
By (Sign)

-----  
By (Sign)

-----  
Name (Print)

-----  
Name (Print)

-----  
Title

-----  
Title

-----  
Date

-----  
Date

-----  
[official seal]

-----  
[official seal]

8 of 8

Appendix H to Exhibit A

MCCL - FISCAL CALENDAR FY'03

4-4-5 Week Calendar

<TABLE>  
<CAPTION>

JULY '02

Sat	Sun	Mon	Tue	Wed	Thu	Fri
<S>	<C>	<C>	<C>	<C>	<C>	<C>
29	30	1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26

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AUGUST '02

Sat	Sun	Mon	Tue	Wed	Thu	Fri
<S>	<C>	<C>	<C>	<C>	<C>	<C>
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23

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SEPTEMBER '02

Sat	Sun	Mon	Tue	Wed	Thu	Fri
<S>	<C>	<C>	<C>	<C>	<C>	<C>
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31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27

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OCTOBER '02

Sat	Sun	Mon	Tue	Wed	Thu	Fri
<S>	<C>	<C>	<C>	<C>	<C>	<C>
28	29	30	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25

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NOVEMBER '02

Sat	Sun	Mon	Tue	Wed	Thu	Fri
<S>	<C>	<C>	<C>	<C>	<C>	<C>
26	27	28	29	30	31	1
2	3	4	5	6	7	8
9	10	11	12	13	14	15



24	25	26	27	28	29	30
31	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27

</TABLE>

Appendix H to Exhibit A

(CHINESE CHARACTERS)  
MICROSOFT (CHINA) CO., LTD.

(CHINESE CHARACTERS)  
ATA TESTING AUTHORITY, BEIJING CO., LTD

Signature	Signature
Name (Print)	Name (Print)
Title	Title
Date	Date

Appendix I to Exhibit A

STANDARD PUBLISHING SCHEDULE

THE FOLLOWING DATES AND INFORMATION ARE FOR ILLUSTRATIVE PURPOSES ONLY AND SUBJECT TO CHANGE.

<TABLE>  
<CAPTION>

TASK NAME	DURATION	SAMPLE START	SAMPLE END	PREDECESSOR
<S>	<C>	<C>	<C>	<C>
HANDOFF BETA FILES TO ATA	0 DAYS	05/08/01	05/08/01	
BETA	16 DAYS	05/09/01	05/31/01	
- Beta registration opens	0 days	05/17/01	05/17/01	9[Sf]-2 wks
- ATA creates FIRST review disk	5 days	05/09/01	05/15/01	1[FS]+1 day
- PM and editor reviews the review disk	2 days	05/16/01	05/17/01	4
- ATA creates SECOND review disk	2 days	05/18/01	05/21/01	5
- PM and editor reviews the review disk	1 day	05/22/01	05/22/01	6
- ATA incorporates changes and posts the beta exam	6 days	05/23/01	05/31/01	7
BETA EXAM RUNS LIVE WORLDWIDE	2 WKS	06/01/01	06/14/01	8
ATA sends handoff files to Sinometrics	2 days	06/01/01	06/04/01	9[SS]
ATA sends final beta data to MCCL for analysis	3 days	06/15/01	06/19/01	9
HANDOFF LIVE FILES AND RESCORE SPECS TO ATA	0 DAYS	07/31/01	07/31/01	
FINAL EXAM	12 DAYS	07/31/01	08/15/01	14
RESCORE BETA EXAM	6 DAYS	07/31/01	08/07/01	
- ATA processes rescore	5 days	07/31/01	08/06/01	14
- ATA populates CNM database, MAS90, and MS-Cert with beta score information	1 day	08/07/01	08/07/01	17
- Beta scores sent to candidate	0 days	08/07/01	08/07/01	18
ATA PUBLISHES FINAL EXAM	11 DAYS	08/01/01	08/15/01	
- Create and send review disk	4 days	08/01/01	08/06/01	14FS+1 day
- MCCL sends feedback to ATA	2 days	08/07/01	08/08/01	21
- Final exam posting	5 days	08/09/01	08/15/01	22
- Early Exam registration opens	0 days	08/15/01	08/15/01	23
EXAM LIVE AT ATA	0 DAYS	08/16/01	08/16/01	23FS+1 DAY
ATA hands off final English Review Disk	5 days	08/17/01	08/23/01	25
PM archives exam files & notifies localization manager	5 days	08/24/01	08/30/01	26
LOCALIZATION	61 DAYS	06/01/01	08/27/01	
English Beta exam goes live	0 days	06/01/01	06/01/01	9SS
ATA sends handoff files to Sinometrics	2 days	06/01/01	06/04/01	31
Translation of items and all displays	20 days	06/05/01	07/02/01	32
TRANSLATION REVIEW DISK	15 DAYS	07/03/01	07/24/01	33
- ATA creates FIRST Review disk (item pool; no forms)	5 days	07/03/01	07/10/01	
- Technical Review	2 wks	07/11/01	07/24/01	35
Final Edits by Sinometrics	5 days	07/31/01	08/06/01	36,14
Sinometrics hands-off final files to ATA	0 days	08/06/01	08/06/01	37
FINAL REVIEW DISK	10 DAYS	08/07/01	08/20/01	38
- ATA creates FINAL Review disk	5 days	08/07/01	08/13/01	
- Final Exam Review	5 days	08/14/01	08/20/01	40
Sinometrics sends final feedback to ATA	0 days	08/20/01	08/20/01	41
Publish exam	5 days	08/21/01	08/27/01	42

</TABLE>

Appendix I to Exhibit A

STANDARD PUBLISHING SCHEDULE

<TABLE>

<S>	<C>	<C>	<C>	<C>
LOCALIZED EXAM GOES LIVE	0 DAYS	08/27/01	08/27/01	43

</TABLE>

(CHINESE CHARACTERS)  
MICROSOFT (CHINA) CO., LTD.

(CHINESE CHARACTERS)  
ATA TESTING AUTHORITY, BEIJING CO., LTD

-----  
Signature

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Signature

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Name (Print)

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Name (Print)

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Title

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Title

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Date

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Date

Appendix J to Exhibit A

MICROSOFT CORPORATION NON-DISCLOSURE AGREEMENT  
(STANDARD RECIPROCAL)

This Non-Disclosure Agreement (the "Agreement") is made and entered into as of the later of the two signature dates below by and between (CHINESE CHARACTERS) Microsoft (China) Co., Ltd., LTD, a PRC corporation ("Microsoft"), and (CHINESE CHARACTERS) ATA Testing Authority, Beijing Co., Ltd. ("ATA"), a PRC corporation ("Company").

IN CONSIDERATION OF THE MUTUAL PROMISES AND COVENANTS CONTAINED IN THIS AGREEMENT AND THE MUTUAL DISCLOSURE OF CONFIDENTIAL INFORMATION, THE PARTIES HERETO AGREE AS FOLLOWS:

1. Definition of Confidential Information and Exclusions.

(a) "Confidential Information" means nonpublic information that a party to this Agreement ("Disclosing Party") designates as being confidential to the party that receives such information ("Receiving Party") or which, under the circumstances surrounding disclosure ought to be treated as confidential by the Receiving Party. "Confidential Information" includes, without limitation, information in tangible or intangible form relating to and/or including released or unreleased Disclosing Party software or hardware products, the marketing or promotion of any Disclosing Party product, Disclosing Party's business policies or practices, and information received from others that Disclosing Party is obligated to treat as confidential. Except as otherwise indicated in this Agreement, the term "Disclosing Party" also includes all Affiliates of the Disclosing Party and, except as otherwise indicated, the term "Receiving Party" also includes all Affiliates of the Receiving Party. An "Affiliate" means any person, partnership, joint venture, corporation or other form of enterprise, domestic or foreign, including but not limited to subsidiaries, that directly or indirectly, control, are controlled by, or are under common control with a party.

(b) Confidential Information shall not include any information, however designated, that: (i) is or subsequently becomes publicly available without Receiving Party's breach of any obligation owed Disclosing Party; (ii) became known to Receiving Party prior to Disclosing Party's disclosure of such information to Receiving Party pursuant to the terms of this Agreement; (iii) became known to Receiving Party from a source other than Disclosing Party other than by the breach of an obligation of confidentiality owed to Disclosing Party; (iv) is independently developed by Receiving Party; or (v) constitutes Feedback (as defined in Section 5 of this Agreement).

2. Obligations Regarding Confidential Information

(a) Receiving Party shall:

- (i) Refrain from disclosing any Confidential Information of the Disclosing Party to third parties for five (5) years following the date that Disclosing Party first discloses such Confidential Information to Receiving Party, except as expressly provided in Sections 2(b) and 2(c) of this Agreement;
- (ii) Take reasonable security precautions, at least as great as the precautions it takes to protect its own confidential information, but no less than reasonable care, to keep confidential the Confidential Information of the Disclosing Party;
- (iii) Refrain from disclosing, reproducing, summarizing and/or distributing Confidential Information of the Disclosing Party except in pursuance of Receiving Party's business relationship with Disclosing Party, and only as otherwise provided hereunder; and
- (iv) Refrain from reverse engineering, decompiling or disassembling any software code and/or pre-release hardware devices disclosed by Disclosing Party to Receiving Party under the terms of this Agreement, except as expressly permitted by applicable law.

Appendix J to Exhibit A

(b) Receiving Party may disclose Confidential Information of Disclosing Party in accordance with a judicial or other governmental order, provided that Receiving Party either (i) gives the undersigned Disclosing Party reasonable notice prior to such disclosure to allow Disclosing Party a reasonable opportunity to seek a protective order or equivalent, or (ii) obtains written

assurance from the applicable judicial or governmental entity that it will afford the Confidential Information the highest level of protection afforded under applicable law or regulation. Notwithstanding the foregoing, the Receiving Party shall not disclose any computer source code that contains Confidential Information of the Disclosing Party in accordance with a judicial or other governmental order unless it complies with the requirement set forth in sub-section (i) of this Section 2(b).

(c) The undersigned Receiving Party may disclose Confidential Information only to Receiving Party's employees and consultants on a need-to-know basis. The undersigned Receiving Party will have executed or shall execute appropriate written agreements with its employees and consultants sufficient to enable Receiving Party to enforce all the provisions of this Agreement.

(d) Receiving Party shall notify the undersigned Disclosing Party immediately upon discovery of any unauthorized use or disclosure of Confidential Information or any other breach of this Agreement by Receiving Party and its employees and consultants, and will cooperate with Disclosing Party in every reasonable way to help Disclosing Party regain possession of the Confidential Information and prevent its further unauthorized use or disclosure.

(e) Receiving Party shall, at Disclosing Party's request, return all originals, copies, reproductions and summaries of Confidential Information and all other tangible materials and devices provided to the Receiving Party as Confidential Information, or at Disclosing Party's option, certify destruction of the same.

### 3. Remedies

The parties acknowledge that monetary damages may not be a sufficient remedy for unauthorized disclosure of Confidential Information and that Disclosing Party shall be entitled, without waiving any other rights or remedies, to such injunctive or equitable relief as may be deemed proper by a court of competent jurisdiction.

### 4. Miscellaneous

(a) All Confidential Information is and shall remain the property of Disclosing Party. By disclosing Confidential Information to Receiving Party, Disclosing Party does not grant any express or implied right to Receiving Party to or under any patents, copyrights, trademarks, or trade secret information except as otherwise provided herein. Disclosing Party reserves without prejudice the ability to protect its rights under any such patents, copyrights, trademarks, or trade secrets except as otherwise provided herein.

(b) In the event that the Disclosing Party provides any computer software and/or hardware to the Receiving Party as Confidential Information under the terms of this Agreement, such computer software and/or hardware may only be used by the Receiving Party for evaluation and providing Feedback (as defined in Section 5 of this Agreement) to the Disclosing Party. Unless otherwise agreed by the Disclosing Party and the Receiving Party, all such computer software and/or hardware is provided "AS IS" without warranty of any kind, and Receiving Party agrees that neither Disclosing Party nor its suppliers shall be liable for any damages whatsoever arising from or relating to Receiving Party's use of or inability to use such software and/or hardware.

(c) The parties agree to comply with all applicable international and national laws that apply to (i) any Confidential Information, or (ii) any product (or any part thereof), process or service that is the direct product of the Confidential Information, including the U.S. Export Administration Regulations, as well as end-user, end-use and destination restrictions issued by U.S. and other governments. For additional information on exporting Microsoft products, see <http://www.microsoft.com/exporting/>.

(d) The terms of confidentiality under this Agreement shall not be construed to limit either the Disclosing Party or the Receiving Party's right to independently develop or acquire products without use of the other party's

### Appendix J to Exhibit A

Confidential Information. Further, the Receiving Party shall be free to use for any purpose the residuals resulting from access to or work with the Confidential Information of the Disclosing Party, provided that the Receiving Party shall not disclose the Confidential Information except as expressly permitted pursuant to the terms of this Agreement. The term "residuals" means information in intangible form, which is retained in memory by persons who have had access to the Confidential Information, including ideas, concepts, know-how or techniques contained therein. The Receiving Party shall not have any obligation to limit or restrict the assignment of such persons or to pay royalties for any work resulting from the use of residuals. However, this sub-paragraph shall not be deemed to grant to the Receiving Party a license under the Disclosing Party's copyrights or patents.

(e) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof. It shall not be modified except by a written agreement dated subsequent to the date of this Agreement and signed by both parties. None of the provisions of this Agreement shall be deemed to have been waived by any act or acquiescence on the part of Disclosing Party, the Receiving Party, their agents, or employees, but only by an instrument in writing signed by an authorized employee of Disclosing Party and the Receiving Party. No waiver of any provision of this Agreement shall constitute a waiver of any other provision(s) or of the same provision on another occasion.

(f) If either Disclosing Party or the Receiving Party employs attorneys to enforce any rights arising out of or relating to this Agreement, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs. This Agreement shall be construed and controlled by the laws of the People's Republic of China, and the parties further consent to submit any dispute arising from and/or in connection with this Agreement to China International Economic & Trade Arbitration Commission (CIETAC) for arbitration in Beijing in accordance with the Commission's arbitration rules in effect at the time of applying for arbitration. The arbitral award is final and binding upon both parties.

(g) This Agreement shall be binding upon and inure to the benefit of each party's respective successors and lawful assigns; provided, however, that neither party may assign this Agreement (whether by operation of law, sale of securities or assets, merger or otherwise), in whole or in part, without the prior written approval of the other party. Any attempted assignment in violation of this Section shall be void.

(h) If any provision of this Agreement shall be held by a court of competent jurisdiction to be illegal, invalid or unenforceable, the remaining provisions shall remain in full force and effect.

(i) Either party may terminate this Agreement with or without cause upon ninety (90) days prior written notice to the other party. All sections of this Agreement relating to the rights and obligations of the parties concerning Confidential Information disclosed during the term of the Agreement shall survive any such termination.

5. Suggestions and Feedback

The Receiving Party may from time to time provide suggestions, comments or other feedback ("Feedback") to the Disclosing Party with respect to Confidential Information provided originally by the Disclosing Party. Both parties agree that all Feedback is and shall be given entirely voluntarily. Feedback, even if designated as confidential by the party offering the Feedback, shall not, absent a separate written agreement, create any confidentiality obligation for the receiver of the Feedback. Receiving Party will not give Feedback that is subject to license terms that seek to require any Disclosing Party product, technology, service or documentation incorporating or derived from such Feedback, or any Disclosing Party intellectual property, to be licensed or otherwise shared with any third party. Furthermore, except as otherwise provided herein or in a separate subsequent written agreement between the parties, the receiver of the Feedback shall be free to use, disclose, reproduce, license or otherwise distribute, and exploit the Feedback provided to it as it sees fit, entirely without obligation or restriction of any kind on account of intellectual property rights or otherwise.

=====  
Appendix J to Exhibit A

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

(CHINESE CHARACTERS) MICROSOFT (CHINA) CO., LTD.	(CHINESE CHARACTERS) ATA TESTING AUTHORITY, BEIJING CO., LTD.
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

Appendix K to Exhibit A

GUIDELINES FOR USING THE MICROSOFT CERTIFIED PROFESSIONAL  
EXAM PROVIDER LOGO (the "GUIDELINES")

(MICROSOFT (R) CERTIFIED PROFESSIONAL LOGO)  
EXAM PROVIDER

These GUIDELINES, being an integral part of the Master Service Agreement, are issued to ATA Testing Authority, Beijing Co., Ltd. (referred to as "You" in the following), for its use of the Logo (see the logo hereinabove) in performing its obligations under the Master Service Agreement and the Exhibits thereto.

- - You must have signed the Master Service Agreement and Exhibit A SOW before using the Microsoft Certified Professional Exam Provider Logo as specified hereinabove (the "Logo").
- - You may only use the Logo on your Web site, marketing material, and letterhead to indicate that You cooperate with Microsoft (China) Co., Ltd. ("MCCL") for the Ministry of Education Polytechnic Program.
- - MCCL will provide You with electronic or camera ready artwork of the Logo. You may not alter this artwork in any way.

- - The Logo may not be translated or otherwise localized into any other language. Any localized versions of the Logo must be provided by MCCL.
- - You may not display the Logo in a manner that implies that the Logo is a part of your company or service name.
- - Your trade name or company name must appear on any materials where the Logo is used. The Logo cannot appear larger than or more prominent than your name, trademark, logo or trade name.
- - The Logo may not be used in any manner that expresses or might imply MCCL's affiliation, sponsorship, endorsement, certification, or approval [of the Ministry of Education Polytechnic Program], other than as set forth by the Master Service Agreement and the Exhibits thereto.
- - The Logo, or any elements thereof, may not be included in your trade or business name, domain name, product or service name, logo, trade dress, design, slogan, or other trademarks.
- - You may not combine the Logo with any other object, including, but not limited to, other logos, icons, words, graphics, photos, slogans, numbers, design features, symbols or Web site audio files.
- - The Logo may not be imitated or used as a design feature in any of your materials or on your Web site.
- - The Logo shall be attributed to Microsoft Corporation in all materials where it is used, with the following attribution clause: "Microsoft is a registered trademark of Microsoft Corporation in the United States and other countries."
- - You may not use the Logo in any way other than as specified in these GUIDELINES.
- - MCCL shall be entitled to supervise the quality of the services rendered by You in using the Logo. Such right shall be exercised by MCCL directly, or by a third party authorized by MCCL. You shall

#### Appendix K to Exhibit A

observe the quality standards set out by MCCL with respect to the services rendered by You in using the Logo, and shall guarantee the quality of such services.

- - You acknowledge that "Microsoft" and the "Microsoft" trademark are renowned in China. You shall not engage in any activities which may have any adverse effect on the reputation and goodwill of MCCL, its affiliates or the relevant trademarks.
- - For the purpose of submitting the duplicate copy of these GUIDELINES and the Master Services Agreement to the trademark bureau for recordation under the Trademark Law of China, You shall provide MCCL with all necessary assistance and support from time to time.
- - Upon expiration of the Master Services Agreement, or in the event that the Logo is discontinued and is not created, You will not be permitted to use any of Microsoft's trademarks and/or the Logo.

#### SPACING

The Logo must stand alone. A minimum amount of space must be left between the Logo and any other object such as type, other logos, photography, borders, edges, and so on. The required border or empty space around the Logo must be x wide, where x equals the height of the graphic, as represented by the height of the box which contains the words "Microsoft Certified".

#### MINIMUM SIZE

You should take care of maintain the integrity of all elements of the Logo. For example, the logotype and trademark notations must be readable; in no case should the Logo appear at such a small size that these conditions are not met. The minimum acceptable size for the Logos is 1 inch (2.54cm) in length.

#### COLOR

The Microsoft Certified Professional Exam Provider Logo can appear in two colors or in black and white.

#### MISUSES

Your use of the Logo in violation of any of the rules specified in these GUIDELINES shall be deemed as specified misuses of Microsoft's trademarks and Logos as contained in the Master Services Agreement, which must be corrected in accordance with the Master Services Agreement.

#### TRADEMARK REGISTRATION NUMBER

"Microsoft" has been duly registered in the People's Republic of China. Registration No. of "Microsoft" is 621,767 for class 16.

Microsoft is a registered trademark of Microsoft Corporation in the United States and other countries.

## Appendix K to Exhibit A

(CHINESE CHARACTERS)  
MICROSOFT (CHINA) CO., LTD.

(CHINESE CHARACTERS)  
ATA TESTING AUTHORITY, BEIJING CO., LTD

----- Signature	----- Signature
----- Name (Print)	----- Name (Print)
----- Title	----- Title
----- Date	----- Date

## Appendix L of Exhibit A

## ATA REVENUE RECONCILIATION REPORTS

## A. OVERVIEW

This section of the document describes the reports required to be sent from ATA to Microsoft. The reports will be used by MS Finance for booking and reconciliation of financial transactions occurring at the end of each fiscal month. Reporting will be provided for each month, dates to be defined.

## B. TRANSMISSION FORMAT

- MS require electronic communications via e-mail attachment, or other method that is mutually agreed upon.
- Electronic transmissions need to be in Microsoft Excel Workbook format.

## C. TRANSMISSION FREQUENCY

ATA must submit the report files to MS no later than 8:00 A.M Beijing Time on the 5th day following the end of each financial month (defined in Appendix H of the SOW).

## D. FILE REQUIREMENTS

## 1. WORKBOOK

<TABLE>	<C>
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WHEN REPORTED	no later than 8:00 A.M Beijing Time on the 5th day following the end of each financial month
FILE NAME	ATA Workbook mm/yy.xls
FORMAT	Excel workbook, Contains five tabs. They are described below.
FREQUENCY	Monthly
DESCRIPTION	This file reports inventory and sales data. The data is used to book financial transactions in to MS corporate systems.

## WORKSHEET 1 - STOCK

DESCRIPTION	The total stock per SKU (stock keeping unit) at the end of the each month. Inventory quantities must be reported for each Microsoft product in the ATA product master, even in cases where all quantities are zero.
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&lt;/TABLE&gt;

&lt;TABLE&gt;

&lt;CAPTION&gt;

#	DESCRIPTION	TYPE	LENGTH	NULL	SAMPLE DATA	COMMENTS
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1	PART NR	AN		N	832-45671	Part Number for title (with dashes)
2	UNITS	N0	10	N	1200	All physical inventory in stock in distributor warehouses including receipts, picking stock, bulk stock, damaged, etc.
3	BACK ORDER QUANTITY	N0	10	N	270	Total quantity in backorder



4	QTY DAMAGED	NO	10	N	55	Total quantity damaged and not available for issue
5	QTY MISPRINT	NO	10	N	0	Total quantity misprinted
6	QTY ORDERED, NOT YET ALLOCATED	NO	10	N	12	Total quantity ordered, but not allocated (not back ordered)
7	QTY ALLOC. TO ORDERS NOT YET PICKED	NO	10	N	200	Total quantity allocated to open orders

1. "UNITS" is defined as inventory that is physically present in the warehouse, in any condition or state (including damaged, locked, allocated, or inventory on a warehouse pick ticket).

Appendix L of Exhibit A

- "BACK ORDER QUANTITY" is defined as an order which will, for any of the following reasons, not be fulfilled immediately: the items being ordered are not currently in stock, items being held for future release date, order held for credit authorization, or orders held while customer on credit hold.
- "QTY DAMAGED" is defined as inventory in unsellable condition.
- "QTY MISPRINT" is defined as inventory that contains printing errors. Misprinted inventory will be locked, so that it cannot be allocated to orders.
- "QTY ORDERED, NOT YET ALLOCATED" is defined as inventory that has been ordered, but not allocated (not backordered).
- "QTY ALLOC. TO ORDERS NOT YET PICKED" is defined as units of physical inventory that have been assigned to a sales or stock order (present in the warehouse, not damaged, locked, on a picked, or included in backorders).

WORKSHEET 2 - RECEIPT

DESCRIPTION The number of copies received per ISBN per receipt date during the fiscal month just completed. Required whenever inventory is received by ATA during the month from sources other than customers (printers, other Press warehouses, etc.)

<TABLE>  
<CAPTION>

#	DESCRIPTION	TYPE	LENGTH	NULL	SAMPLE DATA	COMMENTS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1	PART NR	AN		N	832-45671	Part Number for title (with dashes)
2	QUANTITY RECEIVED	NO	10	N	1200	Total quantity received, must be > 0 This number is the total quantity received, including damaged copies and/or misprints
3	RECEIPT DATE	NO	6	N	030420	Date of receipt is the system input date, format: YYMMDD

WORKSHEET 3 - UNITS SHIPPED

DESCRIPTION Transactions per customer, per transaction type, per line for the fiscal month. Transaction detail should balance with Header records. Welcome Kits should be included in this reporting, and defined as Code 2: Sample Sales.

<TABLE>  
<CAPTION>

#	DESCRIPTION	TYPE	LENGTH	NULL	SAMPLE DATA	COMMENTS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1.	CODE	AN	3	N	R1	Transaction Type (See Appendix B for domain values)
2.	PART NR	AN	13	N	832-45671	Part Number for title (with dashes)
3.	QUANTITY	NO	10	N	10	Total Quantity for line/part number
4.	NET REVENUE PER UNIT	N3	12	N	200.00	Net Revenue Per Unit
5.	COGs	N3	12	N	40.00	Total ATA COGs per unit
6.	ROYALTY	N3	12	N	160.00	Royalty due to MS

Rounding errors can occur, so quantity\*price/unit is not always equal to total amount in the header tab.

Microsoft uses one and two byte codes to report month end financial transactions

in the workbook.

Appendix L of Exhibit A

<TABLE>  
<CAPTION>  
CODE DESCRIPTION  
-----  
<S> <C>  
1 Revenue Sales  
2 Sample Sales  
R1 Return  
</TABLE>

WORKSHEET 4 - WELCOME KITS

DESCRIPTION Number of welcome kits shipped during the fiscal month

<TABLE>  
<CAPTION>  
# DESCRIPTION TYPE LENGTH NULL SAMPLE DATA COMMENTS  
-----  
<S> <C> <C> <C> <C> <C>  
1 PART NR AN 832-45671 Part Number for title (with dashes)  
2 QUANTITY No 10 N 1200 Total number of welcome kits shipped in this month  
</TABLE>

#2 Number of new registrations for classes received this month. Only new registrations should be reported.

WORKSHEET 6 - INVENTORY FORECAST

DESCRIPTION Forecast of sales by part number for next 3 months & next 6 months.

<TABLE>  
<CAPTION>  
# DESCRIPTION TYPE LENGTH NULL SAMPLE DATA COMMENTS  
-----  
<S> <C> <C> <C> <C> <C>  
8 PART NR AN 13 N 832-45671 Part Number for title (with dashes)  
9 UNITS NO 10 N 1200 All physical inventory in stock in distributor warehouses including receipts, picking stock, bulk stock, damaged, etc.  
10 BACK ORDER QUANTITY NO 10 N 270 Total quantity in backorder before product release  
11 TITLE STATUS AN NYP, IP The lifecycle status of the sku.  
12 3 MONTH USAGE NO 10 N 350 Total forecasted units for next 3 month period by part number  
13 6 MONTH USAGE NO 10 N 600 Total forecasted units for next 6 month period by part number. 6 month estimate includes 3 month estimate.  
</TABLE>

1. "UNITS" is defined as inventory that is physically present in the warehouse, in any condition or state (including damaged, locked, allocated, or inventory on a warehouse pick ticket).
2. "BACK ORDER QUANTITY" is defined as an order which will, for any of the following reasons, not be fulfilled immediately: the items being ordered are not currently in stock, items being held for future release date, order held for credit authorization, or orders held while customer on credit hold.
3. "USAGE" is defined as the estimated sales for the specified period of time.
4. "TITLE STATUS" is defined as the lifecycle status of the product, which will be either NYP, not yet printed, or IP, in print. Once a title is released and made available to customers it changes from NYP to IP.

Appendix L of Exhibit A

(CHINESE CHARACTERS)  
MICROSOFT (CHINA) CO., LTD.

(CHINESE CHARACTERS)  
ATA TESTING AUTHORITY, BEIJING CO., LTD

-----  
Signature

-----  
Signature

-----  
Name (Print)

-----  
Name (Print)

-----  
Title

-----  
Title  
-----



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
-----

The Board of Directors  
ATA Inc.:

We consent to the use of our report dated September 1, 2007, except as to Note 2(d) and paragraphs (b) and (c) of Note 19, which are as of October 15, 2007, and as to paragraph (d) of Note 19, which is as of January 7, 2008, with respect to the consolidated balance sheets of ATA Inc. and its subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, included herein and to the reference to our firm under the heading "Experts" in the registration statement (No. 333-148512).

/s/KPMG  
Hong Kong, China  
January 16, 2008

10th January 2008

Mr. Carl Yeung  
ATA Inc.  
CC: MERRILL LYNCH

8th Floor, Tower E  
6 Gongyuan West Street  
Jian Guo Men Nei  
Beijing 100005, China

Re. Letter of Authorization to use IDC research data in IPO  
-----

Dear Mr. Carl Yeung,

Absent prior written consent, the IDC name, logo, trademarks, or copyrighted information, cannot be used in promotional materials, publicity releases, advertising, or any other similar publications and communications, whether oral or written.

Please consider this letter as written authorization to use the IDC's name, and IDC data in the ATA Inc. prospectus for the special study: China Computer-Based Testing 2006-2010 Forecast and Analysis.

The text of the prospectus section headed Summary is based on the latest market research performed by IDC as of 9th December 2007. A copy of the final version of the text is attached for reference. "ATA is the leading provider of computer-based testing services in China, with the largest market share, 30.9%, in terms of revenue in 2006." Should there be changes of this text, please notify IDC immediately.

IDC is not responsible for any damage, or loss, resulting from the use of IDC information, regardless of the circumstance, and will be held harmless from any loss, costs, or expense suffered or incurred as a result of, or in connection with any claim, suit, action from any party pertaining to that use.

Should you have any questions, feel free to contact CoAnn Teoh at +65 6829 7732.

Best Regards,

/s/CoAnn Teoh  
CoAnn Teoh  
Regional Account Executive  
IDC Asia / Pacific

IDC Asia / Pacific  
80 Anson Road #38-00  
Fuji Xerox Building  
Singapore 079907  
Tel: (65) 6226 0330  
Fax: (65) 6220 6116

[January 2, 2008]

Directors  
ATA Inc.  
8th Floor, Tower E  
6 Gongyuan West Street,  
Jian Guo Men Nei  
Beijing 100005, China

SUBJECT: WRITTEN CONSENT TO REFERENCE SALLMANN'S (FAR EAST) LIMITED IN SEC  
-----  
FILINGS OF ATA INC.  
-----

Dear Sirs,

We hereby consent to the references to our name, valuation methodologies, assumptions and value conclusions for accounting purposes, with respect to our appraisal reports addressed to the board of ATA Inc. (the "Company") in the Company's Registration Statement on Form F-1 (together with any amendments thereto, the "Registration Statement") to be filed with the U.S. Securities and Exchange Commission ("SEC"). In giving such consent, we do not admit that we are experts within the meaning of the term experts as used in the Securities Act of 1933, as amended or the rules and regulations of the SEC.

In the preparation of our valuation reports, we relied on the accuracy and completeness of the financial information and other data related to the Company provided to us by the Company and its representatives. We did not audit or independently verify such financial information or other data relating to the Company and take no responsibility for the accuracy of such information. The responsibility for determining fair value rests solely with the Company and our valuation reports were only used as part of the Company's analysis in reaching their conclusion of value.

Yours sincerely,  
For and on behalf of  
SALLMANN'S (FAR EAST) LIMITED

/s/Simon M.K. Chan  
Simon M.K. Chan  
Director

January 7, 2008

Directors  
ATA Inc.  
8th Floor, Tower E  
6 Gongyuan West Street,  
Jian Guo Men Nei  
Beijing 100005, China

SUBJECT: WRITTEN CONSENT RE FILING OF REGISTRATION STATEMENT OF ATA INC.  
-----

Pursuant to Rule 438 of Regulation C promulgated under the Securities Act of 1933, as amended, I, Hope Ni, consent to be named in the Registration Statement on Form F-1 of ATA Inc. and in all amendments and supplements thereto as a person who will become a member of the board of directors of ATA Inc. effective upon declaration of effectiveness of the Registration Statement on Form F-1 by the Securities and Exchange Commission.

Sincerely yours,

/s/Hope Ni  
-----

Hope Ni

January 7, 2008

Directors  
ATA Inc.  
8th Floor, Tower E  
6 Gongyuan West Street,  
Jian Guo Men Nei  
Beijing 100005, China

SUBJECT: WRITTEN CONSENT RE FILING OF REGISTRATION STATEMENT OF ATA INC.  
-----

Pursuant to Rule 438 of Regulation C promulgated under the Securities Act of 1933, as amended, I, Hope Ni, consent to be named in the Registration Statement on Form F-1 of ATA Inc. and in all amendments and supplements thereto as a person who will become a member of the board of directors of ATA Inc. effective upon declaration of effectiveness of the Registration Statement on Form F-1 by the Securities and Exchange Commission.

Sincerely yours,

/s/Alec Tsui  
-----

Alec Tsui