
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended September 30, 2014

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-34122

China Distance Education Holdings Limited

(Exact name of Registrant as specified in its charter)

Not applicable

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

18th Floor, Xueyuan International Tower
1 Zhichun Road, Haidian District
Beijing 100083, People's Republic of China
(Address of principal executive offices)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each representing four ordinary shares, par value \$0.0001 per share	New York Stock Exchange, Inc.

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 142,752,873 ordinary shares. Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

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

Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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INTRODUCTION

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

- all references to years are to the calendar year from January 1 to December 31 and references to our fiscal year or years are to the fiscal year or years ended September 30;
- “we,” “us,” “our company,” “our,” and “CDEL” refer to China Distance Education Holdings Limited and its subsidiaries and PRC affiliated entity, Beijing Champion Hi-Tech Co., Ltd., or Beijing Champion, and its subsidiaries, as the context requires;
- “course enrollment” for a period refers to the cumulative total number of fee-based courses enrolled in by our course participants during such period, counting each and every course enrolled in by a single student as one course enrollment;
- “China,” “Chinese” and “PRC” refers to the People’s Republic of China, excluding, for purposes of this annual report only, Taiwan and the Special Administrative Regions of Hong Kong and Macau;
- all references to “Renminbi” or “RMB” are to the legal currency of China, and all references to “U.S. dollar,” “dollar,” “\$” or “US\$” are to the legal currency of the United States; and
- “U.S. GAAP” refers to generally accepted accounting principles in the United States.

This annual report on Form 20-F includes our audited consolidated statements of operation data for the fiscal years ended September 30, 2012, 2013 and 2014 and audited consolidated balance sheet data as of September 30, 2013 and 2014.

Our ADSs, each representing four ordinary shares, are listed on the New York Stock Exchange, Inc., or the NYSE, under the symbol “DL.”

This Annual Report on Form 20-F includes certain registered trademarks, trademarks, and trade names of CDEL, its subsidiaries, its affiliated entities and others. All terms and product names which may be trademarks or registered trademarks of other companies are hereby acknowledged to belong to their respective owners.

FORWARD-LOOKING STATEMENTS

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

- our goals and growth strategies;
- our future prospects and market acceptance of our courses and other products and services;
- our future business development and results of operations;
- projected revenues, profits, earnings and other estimated financial information;
- projected enrollment numbers;
- our plans to expand and enhance our courses and other products and services;
- competition in the education and test preparation markets; and
- Chinese laws, regulations and policies, including those applicable to the Internet, Internet content providers, the education and telecommunications industries, mergers and acquisitions, taxation and foreign exchange.

These forward-looking statements involve various risks, assumptions and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from or worse than our expectations. Important risks and other factors that could cause our actual results to be materially different from our expectations are generally set forth in “Item 3.D. Key Information — Risk Factors,” “Item 5.A. Operating and Financial Review and Prospects – Operating Results – General Factors Affecting Our Results of Operations,” “Item 5.A. Operating and Financial Review and Prospects – Operating Results – Specific Factors Affecting Our Results of Operations,” “Item 11. Quantitative and Qualitative Disclosures About Market Risk,” and elsewhere in this annual report.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. All forward-looking statements included herein attributable to us or other parties or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We undertake no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, after the date of this annual report or to reflect the occurrence of unanticipated events.

Market Data and Forecasts

This annual report also contains data related to China's education, professional education, test preparation and self-education markets that include 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.

This annual report contains information and statistics relating to China's economy and the industries in which we operate derived from various publications issued by PRC governmental entities which have not been independently verified by us. The information in such official sources may not be consistent with other information compiled in or outside China.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Consolidated Financial Data

The selected consolidated statements of operations data for the fiscal years ended September 30, 2012, 2013 and 2014 and the selected consolidated balance sheets data as of September 30, 2013 and 2014 are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes. Our selected consolidated statements of operations data for the years ended September 30, 2010 and 2011 and the selected consolidated balance sheets data as of September 30, 2010, 2011 and 2012, are derived from our audited consolidated financial statements, which are not included in this annual report. The following information should also be read in conjunction with "Item 5. Operating and Financial Review and Prospects." Our audited consolidated financial statements are prepared in accordance with U.S. GAAP. Our historical results for any prior period are not necessarily indicative of results to be expected for any future period.

	Years Ended September 30,				
	2010	2011	2012	2013	2014
(In thousands of \$, except share, per share and per ADS data)					
Selected Consolidated Statement of Operations Data:					
Net revenues:					
Online education services	23,982	30,788	40,281	58,573	80,545
Books and reference materials	3,939	4,743	4,438	5,129	6,392
Others	4,658	6,033	7,383	7,658	10,259
Total net revenues	<u>32,579</u>	<u>41,564</u>	<u>52,102</u>	<u>71,360</u>	<u>97,196</u>

	Years Ended September 30,				
	2010	2011	2012	2013	2014
	(In thousands of \$, except share, per share and per ADS data)				
Cost of sales:					
Cost of services ⁽⁵⁾	(13,283)	(16,840)	(20,494)	(27,073)	(35,187)
Cost of tangible goods sold	(2,070)	(2,794)	(2,587)	(2,844)	(4,616)
Total cost of sales	(15,353)	(19,634)	(23,081)	(29,917)	(39,803)
Gross profit	17,226	21,930	29,021	41,443	57,393
Operating expenses:					
Selling expenses ⁽⁵⁾	(7,176)	(9,771)	(11,337)	(15,673)	(21,445)
General and administrative expenses ⁽⁵⁾	(10,535)	(12,221)	(8,248)	(9,806)	(11,645)
Impairment of purchased call option	(162)	(1,115)	—	—	—
Total operating expenses	(17,873)	(23,107)	(19,585)	(25,479)	(33,090)
Other operating income	74	603	58	59	253
Operating income (loss)	(573)	(574)	9,494	16,023	24,556
Interest income (expense), net	458	883	1,119	1,415	2,673
Exchange gain (loss)	(66)	(143)	(40)	(77)	232
Income (loss) before income taxes	(181)	166	10,573	17,361	27,461
Less: Income tax expense	(575)	(971)	(2,600)	(3,797)	(4,052)
Net income (loss) from continuing operations	(756)	(805)	7,973	13,564	23,409
Net loss of continuing operations attributable to noncontrolling interest	911	303	—	—	—
Net income (loss) from continuing operations attributable to China Distance Education Holdings Limited	155	(502)	7,973	13,564	23,409
Net income (loss) from discontinued operations attributable to China Distance Education Holdings Limited, net of tax	(2,053)	(3,300)	236	—	—
Net income (loss) attributable to China Distance Education Holdings Limited	(1,898)	(3,802)	8,209	13,564	23,409
Net income (loss) per ordinary share:					
Net income (loss) attributable to China Distance Education Holdings Limited shareholders					
Basic from continuing operations	0.00	0.00	0.06	0.10	0.17
Basic from discontinued operations	(0.01)	(0.03)	0.00	—	—
Basic	(0.01)	(0.03)	0.06	0.10	0.17
Diluted from continuing operations	0.00	0.00	0.06	0.10	0.17
Diluted from discontinued operations	(0.01)	(0.03)	0.00	—	—
Diluted	(0.01)	(0.03)	0.06	0.10	0.17
Net income (loss) per ADS:					
Net income (loss) attributable to China Distance Education Holdings Limited shareholders ⁽¹⁾					
Basic from continuing operations	0.00	(0.01)	0.24	0.40	0.67
Basic from discontinued operations	(0.06)	(0.10)	0.01	—	—
Basic	(0.06)	(0.11)	0.25	0.40	0.67
Diluted from continuing operations	0.00	(0.01)	0.24	0.40	0.67
Diluted from discontinued operations	(0.06)	(0.10)	0.01	—	—
Diluted	(0.06)	(0.11)	0.25	0.40	0.67
Weighted average shares used in calculating net income (loss) per share:					
Basic	138,232,493	133,571,727	133,996,737	135,174,562	139,613,967
Diluted	138,232,493	133,571,727	134,363,108	136,399,233	140,497,204
Other Consolidated Financial Data from Continuing Operations:					
Gross Margin ⁽²⁾	52.9%	52.8%	55.7%	58.1%	59.0%
Operating Margin ⁽³⁾	(1.8)%	(1.4)%	18.2%	22.5%	25.3%
Net Margin ⁽⁴⁾	0.5%	(1.2)%	15.3%	19.0%	24.1%

- (1) One ADS represents four ordinary shares.
- (2) Gross margin represents gross profit as a percentage of net revenues.
- (3) Operating margin represents operating income (loss) as a percentage of net revenues.
- (4) Net margin represents net income (loss) from continuing operations as a percentage of net revenues.
- (5) Includes the following amounts of share-based compensation expenses for the periods indicated:

	Years Ended September 30,				
	2010	2011	2012	2013	2014
	(in thousands of \$)				
Cost of services	1,787	1,999	37	56	—
Selling expenses	567	678	16	47	—
General and administrative expenses	2,033	3,347	88	522	503
Total share-based compensation expenses	4,387	6,024	141	625	503

	As of September 30,				
	2010	2011	2012	2013	2014
	(in thousands of \$)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	57,305	49,738	49,723	71,919	118,075
Term deposits	—	7,839	7,956	817	5,702
Restricted cash	2,906	2,676	6	6	16,637
Total assets	95,971	93,878	89,986	105,994	171,629
Deferred revenue	7,545	7,861	9,450	17,143	23,423
Refundable fees	1,564	2,580	3,524	4,300	5,199
Total liabilities	18,948	21,144	25,369	41,474	73,219
Total China Distance Education Holdings Limited shareholders' equity	74,986	72,734	64,617	64,520	98,410
Total liabilities and equity	95,971	93,878	89,986	105,994	171,629

Exchange Rate Information

We use U.S. dollars as our reporting currency in our financial statements and in this annual report. When reporting the operating results and financial position of our PRC subsidiaries and affiliated entities, we use the monthly average exchange rate for the year and the exchange rate at the balance sheet date, respectively, as published by the Federal Reserve Bank of New York. In other parts of this annual report, any Renminbi denominated amounts are accompanied by translations. With respect to amounts not recorded in our consolidated financial statements included elsewhere in this annual report, all translations from Renminbi to U.S. dollars were made at the noon buying rate in the City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars have been made at RMB6.1380 to \$1.00, the noon buying rate in effect as of September 30, 2014. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report 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 PRC government restricts or prohibits the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions. On January 16, 2015, the noon buying rate was RMB6.2065 to \$1.00.

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

	Renminbi per U.S. dollars Noon Buying Rate			
	Average ⁽¹⁾	Low	High	Period End
Fiscal year ended September 30, 2010	6.8112	6.8330	6.6869	6.6950
Fiscal year ended September 30, 2011	6.5356	6.6912	6.3778	6.3780
Fiscal year ended September 30, 2012	6.3376	6.3879	6.2790	6.2848
Fiscal year ended September 30, 2013	6.1857	6.2877	6.1123	6.1200
Fiscal year ended September 30, 2014	6.1479	6.2591	6.0402	6.1380
Most recent six months:				
August 2014	6.1541	6.1793	6.1395	6.1430
September 2014	6.1382	6.1495	6.1266	6.1380
October 2014	6.1251	6.1385	6.1107	6.1124
November 2014	6.1249	6.1429	6.1117	6.1429
December 2014	6.1886	6.2256	6.1490	6.2046
January 2015 (through January 16, 2015)	6.2056	6.2201	6.1870	6.2065

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

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

If we are unable to continue to attract course participants to enroll in our courses, or to charge our course participants competitive but profitable fees, our revenues may decline and we may not be able to maintain profitability.

The continued success and growth of our business depend primarily on the number of enrollments in our courses and the amount of course fees that we can charge. This in turn will depend on several factors, including our ability to develop new courses and improve existing courses to respond to changes in market trends and demands of course participants, to effectively market our courses to a broader base of prospective course participants, to train and retain qualified lecturers and tutors, to develop or acquire additional high-quality educational content and to respond to competitive pressures. In addition, the expansion of our courses, services and products in terms of the types of offerings may not succeed due to competition, our failure to effectively market our new courses, services and products or to maintain their quality and consistency, or other factors. Furthermore, we may not be able to develop and offer additional content on commercially reasonable terms and in a timely manner, or at all, to keep pace with changes in market requirements. If we are unable to continue to attract course participants to enroll in our courses, increase enrollments in our relatively new courses, or charge competitive but profitable fees, our revenues may decline and we may be unable to achieve revenue growth or maintain our profitability.

If we fail to develop and introduce new courses, services and products that meet our target course participants' expectations, or adopt new technologies important to our business, our competitive position and ability to generate revenues may be materially and adversely affected.

Historically, our core business centered on the provision of online professional education and test preparation courses for accounting professionals. We have since expanded our course offerings to target course participants in the healthcare, engineering & construction, law and other industries, as well as participants of online courses for self-taught learners seeking higher education and other forms of online and offline education. In addition to regular classes, we have also introduced, in the past few years, "elite" classes and "premium" classes within some of our most popular course offerings to better serve the needs of high-end course participants. The profitability of the elite and premium classes may be subject to risks given that the course participants enjoy refund or discount privileges if certain pre-agreed conditions are met. We also offer business start-up training courses, which are subsidized by the PRC government, the profitability of which may be subject to risks given that the subsidy we are entitled to receive from the government in certain provinces and cities may be reduced if certain stipulated conditions in the government's subsidy policies are not met. We intend to continue developing new courses, services and products. The timing of the introduction of new courses, services and products is subject to risks and uncertainties.

Unexpected technical, operational, logistical, regulatory or other problems could delay or prevent the introduction of one or more of new courses, services or products. Moreover, we cannot assure you that any of these courses, products and services will match the quality or popularity of those developed by our competitors, achieve widespread market acceptance or generate the desired level of income.

Technology standards in Internet and value-added telecommunications services and products in general, and in online education services in particular, may change over time. If we fail to anticipate and adapt to such technological changes, our market share and our business development could suffer, which in turn could have a material and adverse effect on our financial condition and results of operations. If we are unsuccessful in addressing any of the risks relating to new courses, services and products, our business may be materially and adversely affected.

Our business depends on the continued success of our key brands and the further enhancement of our newer brands. If we fail to maintain and enhance recognition of our brands, we may face difficulty in obtaining new business partners and course participants, and our business reputation and operating results may be harmed.

We believe that market awareness of our key brands, "Chinaacc" and "med66.com," have contributed significantly to the success of our business. Maintaining and enhancing these key brands, further improving our brands in other industries and introducing new brands are critical to our efforts to grow our course participant base and attract additional business partners. We may need to incur significant marketing and promotion costs to maintain and enhance our brands. Failure to maintain and enhance recognition of our brands could have a material and adverse effect on our business, operating results and financial condition.

Our business could be adversely affected if there are changes in the perceived difficulty, requirements or formats of professional examinations, courses and continuing education in China, or if certain professional qualifications and certificates are cancelled by the government authorities.

We provide online professional education and test preparation courses relating to the accounting, healthcare, engineering & construction, law and other industries. In addition, we also provide online professional continuing education courses relating to the accounting, healthcare and engineering & construction industries. We have obtained approval and exclusive rights to offer self-taught study process monitoring programs in certain provinces and cities, to allow learners to earn up to 30% of the credits they need to obtain post-secondary self-taught education degrees. If there is any material change to the perceived difficulty, requirements or formats of examinations, courses and continuing education in our course offerings, and we are unable to modify or supplement our courses or training materials to address these changes in a timely manner, the demand for, and relevance of, our courses and training materials may be adversely affected, which could have an adverse impact on our financial condition and results of operations.

In addition, if competent government authorities decide to cancel certain professional qualifications or certificates, our business relating to relevant course offerings would be materially and adversely affected. For example, the PRC State Council promulgated a decision in August 2014, pursuant to which various professional qualifications or certificates, including the Registered Tax Agent and Certified Asset Appraiser Qualification, were cancelled or replaced with a qualification evaluation system administered by the State Council. As a result, the number of our students enrollments and, therefore, revenues generated from our course offerings for these professional qualifications or certificates are expected to be adversely affected. If there are any material changes in the professional qualification licensing and identification in our course offerings, and we are unable to address these changes in a timely manner, our revenue generated from related course offerings may be adversely affected, which could have an adverse impact on our financial condition and results of operations.

Changes in the government authorities' subsidy policy with respect to our business start-up training courses could adversely affect our financial condition and results of operations.

We provide business start-up training courses, which are sponsored by government authorities, to university students and job seekers using materials prepared in accordance with requirements of the relevant government authorities in various provinces and cities. We do not charge fees to course participants enrolled in our business start-up training courses; instead, we receive payments from the relevant government authorities for courses provided. Our net revenue generated from such courses is conditioned on our ability to meet the government stipulated conditions under the subsidy policies, which is determined by the government authorities' assessment of the passage rate of our course participants' business proposals as evaluated by such authorities, as well as the business start-up rate and employment rate of our course participants. If there are any material changes to the government subsidy policy, and we are unable to meet the newly stipulated conditions or to address these changes in a timely manner, our revenue generated from this course offering may be adversely affected, which could have an adverse impact on our financial condition and results of operations.

Our business is dependent on our lecturers comprised primarily of academics and experienced practitioners within their respective industries who are typically engaged on a part-time contractual basis.

The vast majority of our lecturers are academics from post-secondary educational institutions and experienced practitioners within their respective industries in China who typically work for us on a part-time basis. A small portion of our lecturers are our tutors who remain full-time employees after becoming our lecturers. The popularity and effectiveness of our courses depend, in part, on the teaching ability of these lecturers and their reputation as skilled lecturers. Consequently, our reputation and operating results could be adversely affected if we fail to attract qualified lecturers or to maintain or improve the quality of our lectures. For example, if our lecturers fail to deliver quality lectures as a result of inadequate devotion of their time and energy to our courses or for other reasons, our business may be adversely affected. In addition, as the online education industry grows and matures, we may face increasing competition from our competitors for lecturers with good reputations and effective teaching skills, and on whom we rely for delivering quality services and to maintain and promote our leading market position. Additionally, our lecturers may join our competitors or set up competing businesses after they discontinue their relationship with us, which could further adversely affect our operating results. Furthermore, China has promulgated certain regulations prohibiting post-secondary teachers from engaging in part-time jobs that may have an adverse effect on their primary teaching posts and prohibiting public school teachers working in primary and secondary education institutions from engaging in part-time jobs to provide tutoring services. If our lecturers choose to, or are forced to, discontinue their relationship with us to comply with the relevant regulations, we will need to seek new lecturers to replace them. We cannot assure you we will be able to find replacements at a reasonable cost on a timely basis, if at all.

Failure to attract and retain qualified personnel and experienced senior management could disrupt our operations and adversely affect our business and competitiveness.

Our continuing success is dependent, to a large extent, on our ability to attract and retain qualified personnel and experienced senior management. If one or more of our senior management team members are unable or unwilling to continue to work for us, we may not be able to replace them within a reasonable period of time or at all, and our business may be severely disrupted, our financial condition and results of operations may be materially and adversely affected and we may incur additional expenses in recruiting and training additional personnel. Although our senior management members are subject to certain non-compete restrictions during their employment and for a period of two years thereafter, we cannot assure you that such restrictions will be enforced under PRC law. If any of our senior management joins a competitor or forms a competing business, our business may be severely disrupted. We have no key man insurance with respect to our key personnel that would provide insurance coverage payable to us for loss of their employment due to death or otherwise.

Mr. Zhengdong Zhu, our chairman, chief executive officer and co-founder of our business, has played an important role in the growth and development of our business since its inception, and a loss of his services in the future could severely disrupt our business and negatively affect investor confidence in us, which may also cause the market price of our ADSs to decline.

Mr. Zhengdong Zhu, our chairman, chief executive officer and co-founder of our business, has played an important role in the growth and development of our business since its inception. To date, we have relied heavily on Mr. Zhu's expertise in, and familiarity with, our business operations, his relationships with our employees, and his reputation in the online education industry. In addition, Mr. Zhu continues to be primarily responsible for formulating our overall business strategies and spearheading the growth of our operations. If Mr. Zhu were unable or unwilling to continue in his present positions, we may not be able to easily replace him and may incur additional expenses to identify and train his successor. In addition, if Mr. Zhu were to join a competitor or form a competing business, it could severely disrupt our business and negatively affect our financial condition and results of operations. Although Mr. Zhu is subject to certain non-compete restrictions during his employment with us and for a period of two years thereafter, we cannot assure you that such restrictions will be enforced under PRC law. Moreover, even if the departure of Mr. Zhu from our company would not have any actual impact on our operations and the growth of our business, it could create the perception among investors or the marketplace that his departure could severely damage our business and operations and could negatively affect investor confidence in us, which may cause the market price of our ADS to decline. We do not maintain key man insurance on Mr. Zhu.

Mr. Zhengdong Zhu, our chairman and chief executive officer, beneficially owns a significant percentage of our outstanding ordinary shares and, as a result, he has significantly greater influence over us and our corporate actions relative to our public shareholders and his interests may not be aligned with the interests of other shareholders.

As of December 31, 2014, our co-founder and chief executive officer, Mr. Zhu, beneficially owned 62,649,481 ordinary shares or approximately 43.4% of our outstanding ordinary shares. Mr. Zhu has, and may continue to have, significant influence in determining the outcome of most corporate transactions or other matters submitted to our 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. He may not act in the best interests of our minority shareholders. In addition, without the consent of Mr. Zhu, we could be prevented from entering into transactions that could be beneficial to us. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

We may lose market share and our profitability may be materially and adversely affected, if we fail to compete effectively with our present and future competitors or to adjust effectively to changing market conditions and trends.

We face competition from providers of traditional offline education, training and test preparation services, and expect to face increasing competition from existing competitors and new market entrants in the online professional education and test preparation market. The provision of professional education and test preparation courses over the Internet is a relatively recent concept. Although online education is increasingly perceived as an acceptable means of receiving training and instruction, traditional classroom instruction is still generally more widely accepted. We therefore compete with traditional offline educational institutions and training centers in the various disciplines in which we offer courses. As most of our courses are conducted solely online, if the preference for traditional forms of education and training persists or increases, we may not be able to compete effectively with competitors engaging in traditional forms of education and training. In addition, due to low barriers to entry for Internet-based businesses, we expect to face increasing competition from both existing domestic competitors and new entrants to the online education market. We may face increased competition from international competitors that cooperate with local businesses to provide services based on the international competitors' technology and experience developed in their home markets.

Our present and future competitors may have longer operating histories, and greater financial, technical, marketing and other resources. They may be able to devote more resources to the development and promotion of their courses and services, and may be able to react more quickly to changing course participant requirements and demands, deliver competitive services at lower prices or respond to new technologies, trends or user preferences more effectively than we can. They may be able to offer services and products with better performance and prices than ours with the result that their services and products may gain greater market acceptance than ours. They may also offer free promotional services and products in connection with their marketing campaigns or significantly lower the prices for their services and products in order to attract course participants and capture additional market share. There is no assurance that we will be able to compete effectively with such present and future competitors or to adjust effectively to changing market conditions and trends. Our failure to compete effectively could erode our market share, result in fewer course participants, or lead to price reductions or increased spending for marketing and promotion of our courses, any of which may materially and adversely affect our profitability.

Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility in and adversely affect the price of our ADSs.

We have experienced and expect to continue to experience seasonality in revenues primarily due to seasonal changes in course enrollments and the timing of various exams. As the majority of our course participants take non-refundable courses relating to the main professional exams, which are typically held in May, June, September and October (May and September prior to fiscal year 2012), we typically experience higher revenues in the second half of each fiscal year. With respect to our refundable courses, which also primarily relate to the main professional exams, we typically experience higher revenues in the first half of each fiscal year (quarters ended March 31 and September 30 prior to fiscal year 2012). Additionally, as the majority of our course participants for professional continuing education courses take such courses in the second half of the calendar year, we typically experience higher revenues during the quarters ending September 30 and December 31 of each fiscal year. As a result, we historically have generated higher revenue in the second half of each fiscal year. Furthermore, our revenues may be significantly affected by the timing of various exams. For example, the 2012 Elementary Level and Intermediate Level Accounting Professional Qualification Exams, which were originally scheduled to be held in May 2012 were postponed to October 2012. As a result, refundable fees relating to such exams were not recognized as revenue in the fourth fiscal quarter ended September 30, 2012 and were instead recognized in the quarter ended December 31, 2012. The 2015 Elementary Level Accounting Professional Qualification Exams is scheduled to be held in May 2015 again, and the 2015 Intermediate Level Accounting Professional Qualification Exams is scheduled to be held in September 2015. In addition, as the mix of exams and course subjects changes over time, we expect to continue experiencing seasonality based on the timing of various exams. These fluctuations could result in volatility and adversely affect the price of our ADSs. As our revenues grow, these seasonal fluctuations may become even more pronounced. For more details, see "Item 4.B. Business Overview — Seasonality."

Higher labor costs, inflation and implementation of stricter labor laws in China may adversely affect our business and our profitability.

Labor costs in China have risen in recent years as a result of social development and increasing inflation in China. According to the National Bureau of Statistics of China, the consumer price index in China increased by 2.6% and 2.6% in 2012 and 2013, respectively. The average wage level for our employees has also increased in recent years. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our course participants by increasing prices for our services or improving the utilization of our teachers and our staff, our profitability and results of operations may be materially and adversely affected. Furthermore, the PRC government has promulgated new laws and regulations to enhance labor protection in recent years, such as the Labor Contract Law and the Social Insurance Law. As the interpretation and implementation of these new laws and regulations are still evolving, our employment practice may not be at all times be deemed in compliance with the new laws and regulations. If we are subject to penalties or incur significant liabilities in connection with labor disputes or investigation, our business and profitability may be adversely affected.

Our failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights or defend against third party allegations of infringement may be costly and ineffective.

We believe that our copyrights, trademarks and other intellectual property are essential to our success. We depend to a large extent on our ability to develop and maintain the intellectual property rights relating to our technology and products. We have devoted considerable time and energy to the development and improvement of our websites, our online training platform and our training courses and materials.

We rely primarily on copyrights, trademarks, trade secrets and other contractual restrictions for the protection of the intellectual property used in our business. Nevertheless, these provide only limited protection and the actions we take to protect our intellectual property rights may not be adequate. Our trade secrets may become known or be independently discovered by our competitors. Third parties have, in the past, pirated our books and other course materials and may in the future infringe upon or misappropriate our other intellectual property. Infringement upon, or misappropriation of, our proprietary technologies or other intellectual property could have a material adverse effect on our business, financial condition or operating results. Policing the unauthorized use of proprietary technology can be difficult and expensive. Also, litigation may be necessary to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. The outcome of such potential litigation may not be in our favor and any success in litigation may not be able to adequately protect our rights. Such litigation may be costly and divert management's attention away from our business. An adverse determination in any such litigation would impair our intellectual property rights and may harm our business, prospects and reputation. Enforcement of judgments in China is uncertain, and even if we are successful in litigation, it may not provide us with an effective remedy. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

We may be exposed to infringement claims by third parties or held liable for defamation or negligence to third parties for information displayed on, retrieved from or linked by our websites, for the content of the books and reference materials or marketing materials that we or our lecturers publish or distribute or for information delivered or shared through our services, which could disrupt our business and cause us to incur substantial legal costs, or damage our reputation.

We cannot assure you that our services and products do not or will not infringe any intellectual property rights held by third parties. We have in the past, in the ordinary course of business, experienced claims for intellectual property infringement, none of which has had a material effect on our business. We cannot assure you that in the future we will not receive claims of infringement of third parties' proprietary rights or claims for indemnification resulting from infringement arising from our services or products. We may also become subject to claims that content on our websites or in the books and reference materials or marketing materials that we or our lecturers publish or distribute is protected by third parties' copyrights or trademark.

In addition, as a provider of Internet content and other value-added telecommunications services, we may face liability for defamation, negligence and other claims based on the nature and content of the materials displayed on our websites or delivered or shared through our services. We could also be subject to claims based on content accessible on our websites or through our networks, such as content and materials posted by visitors on message boards, online communities, or emails. By providing hypertext links to third-party websites, we may be held liable for copyright or trademark violations by those third-party websites. Third parties could assert claims against us for losses incurred in reliance on any erroneous information distributed by us.

Royalty or licensing agreements, if required, may not be available on acceptable terms, if at all. A successful claim of infringement against us and our failure or inability to obtain a license to use the infringed or similar technology or content on commercially acceptable terms, or at all, could prevent us from producing and offering our services or products or cause us to incur great expense and delay in developing non-infringing services or products. Any of the above events could in turn have a material and adverse impact on our financial condition and results of operations. Any defamation or negligence claims against us, even if they do not result in liability to us, could cause us to incur significant costs in investigating and defending against these claims. We do not have general liability insurance to cover all potential claims to which we are exposed, and our insurance coverage may not be adequate to indemnify us from all liability that may be imposed.

Concerns about the security of our transaction systems and confidentiality of information on the Internet may reduce use of our services and impede our growth.

Public concerns over the security and privacy of electronic settlement, online transmittal and communications have to some extent constrained the rapid development and expansion of online transactions. If these concerns are not adequately addressed, they will restrict the growth of value-added telecommunications services generally and in particular the use of the Internet as a means of conducting commercial transactions. If a well-publicized breach of security were to occur, general usage of value-added telecommunications services could decline, which could reduce our visitor traffic and the number of course participants, and impede our growth. We are continuously vigilant about protecting and improving our cyber security and have not experienced any material cyber attacks on our information technology systems. We cannot assure you, however, that our current security measures will be adequate or sufficient to prevent any theft or misuse of personal data of our course participants. Further, security breaches could expose us to litigation and possible liability for failing to secure confidential customer information, and could harm our reputation and ability to attract or retain course participants. In addition, we do not have any cyber security insurance coverage for our operations, and any material cyber attack on our information technology systems and our online education websites could expose us to substantial costs and losses.

The successful operation of our business depends upon the performance and reliability of the Internet infrastructure and telecommunications networks in China.

Our business depends on the performance and reliability of the Internet infrastructure in China. Almost all access to the Internet is maintained through state-controlled telecommunications operators. We cannot assure you that a more sophisticated Internet infrastructure will be developed in China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China's Internet infrastructure. In addition, the Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.

We also rely on China Telecommunications Corporation, or China Telecom, China United Network Communications Group Co., Ltd., or China Unicom, and China Mobile Communications Corporation, or China Mobile, to provide us with data communications capacity primarily through local telecommunications lines and Internet data centers to host our servers. We do not have access to alternative services in the event of disruptions, failures or other problems with the telecommunications networks of China Telecom, China Unicom and China Mobile or if they otherwise fail to provide such services. Any unscheduled service interruption could disrupt our operations, damage our reputation and result in a decrease in our revenues.

Furthermore, we have no control over the costs of services provided by China Telecom, China Unicom and China Mobile. If the prices that we pay for telecommunications and Internet services rise significantly, our gross profit and net income could be adversely affected. In addition, if Internet access fees or other charges to Internet users increase, our visitor traffic may decrease, which in turn may harm our revenues.

Unexpected network interruptions, security breaches or computer virus attacks and system failures could have a material adverse effect on our business, financial condition and results of operations.

Any failure to maintain satisfactory performance, reliability, security or availability of our network infrastructure may cause significant damage to our reputation and our ability to attract and maintain course participants. Major risks involving our network infrastructure include:

- breakdowns or system failures resulting in a prolonged shutdown of our servers, including failures attributable to power shutdowns, or attempts to gain unauthorized access to our systems, which may cause loss or corruption of data or malfunctions of software or hardware;
- disruption or failure in the national backbone network, which would make it impossible for visitors and course participants to log on to our websites;
- damage from fire, flood, power loss and telecommunications failures; and
- any infection by or spread of computer virus.

Any network interruption or inadequacy that causes interruptions in the availability of our websites or deterioration in the quality of access to our websites could reduce course participant satisfaction and result in a reduction in the number of course participants using our services. If sustained or repeated, these performance issues could reduce the attractiveness of our websites and course offerings. In addition, any security breach caused by hackings, which involve attempts to gain unauthorized access to information or systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could cause a disruption in our services. Inadvertent transmission of computer viruses could expose us to a material risk of loss of our course files or litigation and possible liability, as well as damage to our reputation.

Furthermore, increases in the volume of traffic on our websites could also strain the capacity of our existing computer systems, which could lead to slower response times or system failures. This would cause a disruption or suspension in our course offerings, which would hurt our brand and reputation, and thus negatively affect our revenue growth. We may need to incur additional costs to upgrade our computer systems in order to accommodate increased demand if we anticipate that our systems cannot handle higher volumes of traffic in the future.

All of our servers and routers, including backup servers, are currently hosted by third-party service providers in multiple cities in China. We do not maintain any backup servers outside of these cities. To improve the performance and to prevent disruption of our services, we may have to make substantial investments to deploy additional servers or one or more copies of our websites to mirror our online resources.

We may continue to grant share options and/or restricted shares under our current or future share incentive plans, or modify the terms of existing share options, which may continue to materially impact our future results of operations or result in dilution to our shareholders.

We adopted our Share Incentive Plan in April 2008, or the Prior Plan, under which we had granted options for the purchase of a total of 11,045,500 ordinary shares to selected officers, employees, and lecturers as of September 30, 2014. We adopted in July 2008, and amended and restated in February 2009 and May 2012, respectively, our 2008 Performance Incentive Plan, or the New Plan, under which we reserved a maximum number of 17,944,379 ordinary shares as of September 30, 2014, plus an automatic annual adjustment. Pursuant to the New Plan, we had granted options for the purchase of a total of 3,162,500 ordinary shares, and issued 507,143 restricted shares, to selected directors, and employees as of September 30, 2014. In addition, we have reduced the exercise price of certain options under our Prior and New Plans in the past. See “Item 6.B. Directors, Senior Management and Employees — Compensation — Share Options, Restricted Shares and Share Incentive Plan.” In connection with the share options we granted and restricted shares we issued, we incurred \$0.1 million, \$0.6 million and \$0.5 million of share-based compensation expenses in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. The expenses associated with options granted and restricted shares issued under the share incentive plans may continue to impact our future results of operations. In addition, if we grant additional options, restricted shares and other equity incentives in the future under our current or future share incentive plans, or modify the terms of existing share options, we could further incur significant share-based compensation expenses, or experience a reduction in our net income. Such actions could also result in dilution to our shareholders.

We may need additional capital but may not be able to obtain it on acceptable terms or at all.

We believe that our current cash and cash equivalents and anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures for at least the next 12 months. We do not anticipate that our current expansion plans will require significant capital commitments due to the scalability of our business model. We do, however, expect to spend money on the further development of our “Chinaacc” and “med66.com” brands and other brands in the disciplines for which we offer courses. 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, for example, mergers and acquisitions, our sales performance, ability to control costs and expenses, and choice of financing arrangements. Any changes in the significant factors affecting our revenues from education services may cause material fluctuations in our cash generated from operations. See “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Overview — Specific Factors Affecting Our Results of Operations” for a description of these significant factors. Changes in working capital, including any significant shortening or lengthening of our accounts receivable cycle or customer 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 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 companies mainly providing online professional education and test preparation courses;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;

- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in Internet, educational services and professional training services companies;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

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 have a material adverse effect on our business, financial condition and results of operations.

We may not be able to effectively manage the expansion of our operations through new acquisitions or joint ventures or to successfully realize the anticipated benefits of any such acquisition or joint venture.

We have historically complemented our organic growth through the selective acquisition of complementary businesses, assets, products or technology, or the formation of joint ventures, and we may continue to do so in the future. The identification of suitable acquisition targets or joint venture candidates can be difficult, time consuming and costly, and we may not be able to successfully capitalize on identified opportunities. Consummation of acquisitions and the subsequent integration of new assets and businesses into our own could also be costly and require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results we expect and may even result in us suffering losses. Moreover, completions of acquisitions are typically subject to various approval processes. In addition to possible shareholders' approval, we may also have to obtain approvals and licenses from the relevant government authorities in the PRC for the acquisitions and to comply with any applicable PRC laws and regulations, which could result in increased costs and delay. Furthermore, acquisitions or joint ventures could result in the use of substantial amounts of cash, potentially dilutive issuances of equity or equity-linked securities or the incurrence of debt, the incurrence of significant goodwill, intangible assets and other long-term assets impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business, or other charges, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our operations could be disrupted by an outbreak of fire or other calamities and we have limited insurance coverage.

We store books and audio and visual products at our premises to support our courses. As such, there is a risk that these products and our premises may be damaged or destroyed by fire and other natural calamities. Any outbreak of fire or similar calamities at our premises may result in the breakdown of our facilities and disruption to our business. In addition, any fire or other calamity at the facilities of our third-party service providers that host our servers could severely disrupt our ability to deliver our courses and other services over our websites.

At present, insurance companies in the PRC offer limited coverage for business related risks. As such, we only have a very limited form of insurance for our property covering loss of property arising from theft, fire, lightning, explosives and damage caused by aerial objects. We do not have any business liability or disruption insurance coverage for our operations, and our coverage may not be adequate to compensate for all losses that may occur, particularly with respect to loss of business and reputation. Any business disruption, litigation or natural disaster could expose us to substantial costs and losses.

Our financial performance and prospects could be affected by natural calamities or health epidemics.

Our business could be materially and adversely affected by natural calamities, such as floods and earthquakes or health epidemics such as influenza, severe acute respiratory syndrome or other epidemics. Any occurrence of natural calamities or epidemics may result in the postponement or rescheduling of examinations, which may in turn have an adverse impact on our revenues and performance. In addition, if our employees are affected by natural calamities or contagious or virulent diseases, we may fail to provide our courses, materials and services in a timely manner, which will have an adverse impact on our financial performance. We have not adopted any written preventive measures or contingency plans to combat any future natural calamities or outbreak of epidemics. Any natural calamities or prolonged recurrence of adverse public health developments in China may have a material and adverse effect on our business operations, financial performance and prospects.

We may be exposed to liability for our course content, information or advice we provide to our course participants or customers of our other services.

We may be subject to legal claims from our course participants or customers of our other services for losses they suffer if such losses arise from their reliance on content, information or advice that we provide to them. Such claims, with or without merit, may be expensive to defend and may have an adverse impact on our reputation. Further, if such claims are successful, we may be held liable to pay compensation which may in turn adversely affect our financial condition and results of operations.

Failure to maintain effective internal control over financial reporting could have a material and adverse effect on the trading price of our ADSs.

We are subject to the reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), has adopted rules requiring every public company to include a report of management on the effectiveness of such companies’ 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 issue an attestation report on the effectiveness of the company’s internal control over financial reporting. These requirements apply to our annual report on Form 20-F for the fiscal year ended September 30, 2014.

Our management has concluded that our internal control over financial reporting was effective as of September 30, 2014. Our independent registered public accounting firm has issued an attestation report, which has concluded that we maintained, in all material aspects, effective internal control over financial reporting as of September 30, 2014. See “Item 15. Controls and Procedures.” However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could negatively affect the reliability of our financial information and result in the loss of investors’ confidence in our reported financial information, which in turn could negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

Risks Relating to Our Corporate Structure and Restrictions on Our Industry

Substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations relating to the distribution of Internet content in China. If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, we could be subject to severe penalties, including the shutting down of our websites.

Foreign ownership of Internet-based businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates Internet access, the distribution of online information and the conduct of online commerce through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership in PRC companies that provide Internet content distribution services. Specifically, foreign investors in most areas of the PRC (including the areas where we have operations) are not allowed to own more than 50% equity interests in any entity conducting Internet content distribution business.

Because we are a Cayman Islands company and we hold the equity interests of our PRC subsidiaries indirectly through China Distance Education Limited, a Hong Kong company, or CDEL Hong Kong, our PRC subsidiaries are treated as foreign invested enterprises under PRC laws and regulations. To comply with PRC laws and regulations, we conduct our operations in China through a series of contractual arrangements entered into among CDEL Hong Kong, our two PRC subsidiaries, Beijing Champion Distance Education Technology Co., Ltd., or Champion Technology and Beijing Champion Education Technology Co., Ltd. or Champion Education Technology, our affiliated PRC entity, Beijing Champion and its shareholders. Beijing Champion is a PRC limited liability company 79% owned by Zhengdong Zhu, our chairman and chief executive officer and a major shareholder, and 21% owned by Baohong Yin, our co-founder and deputy chairman, both of whom are PRC citizens. Beijing Champion holds a Telecommunications and Information Services Operating License, or ICP license, issued by the Beijing Telecommunications Administration Bureau, a local branch of China’s Ministry of Industry and Information Technology, or MIIT (formerly known as the Ministry of Information Industry), which allows Beijing Champion to provide Internet content distribution services. Each of Beijing Caikaowang Company Limited, or Caikaowang, Beijing Champion Wangge Education Technology Co., Ltd., or Champion Wangge, and Beijing Zhengbao Yucai Education Technology Co., Ltd., or Zhengbao Yucai, is a subsidiary of Beijing Champion, and holds an ICP license issued by the Beijing Telecommunications Administration Bureau. In addition, Beijing Champion holds a Permit of Internet Cultural Activities issued by the Beijing Municipal Bureau of Culture, which permits Beijing Champion to engage in production and dissemination of musical and entertainment products and animated products through the Internet. The ICP licenses and other approvals held by Beijing Champion and its subsidiaries are essential to the operation of our business.

As a result of these contractual arrangements, we control Beijing Champion and its subsidiaries and, accordingly, under U.S. GAAP, we consolidate its operating results in our financial statements. For a description of these contractual arrangements, see “Item 4.C. Information on the Company — Organizational Structure.”

The relevant PRC regulatory authorities have broad discretion in determining whether a particular contractual structure is in violation of law. For example, on July 13, 2006, MIIT issued the Notice on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services, or the MIIT Notice. The MIIT Notice prohibits a domestic telecommunications service provider from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for its illegal operation of a telecommunications business in China. According to the MIIT Notice, either the holder of a value-added telecommunications service license or its shareholders must directly own the domain names and trademarks used by such license holder in its provision of value-added telecommunications services. The MIIT Notice also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license. In order to comply with the MIIT Notice, we have transferred all domain names and trademarks that are primarily used in connection with our online business activities from Champion Technology to Beijing Champion.

Furthermore, if our ownership structure, contractual arrangements and businesses of our company, our PRC subsidiaries and Beijing Champion or its subsidiaries are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries or Beijing Champion or its subsidiaries, which business and operating licenses are essential to the operation of our business;
- levying fines;
- confiscating our income, the income of our PRC subsidiaries or that of Beijing Champion or its subsidiaries;
- shutting down our servers or blocking our websites;
- discontinuing or restricting our operations or the operations of our PRC subsidiaries or Beijing Champion or its subsidiaries;
- imposing conditions or requirements with which we, our PRC subsidiaries or Beijing Champion or its subsidiaries may not be able to comply;
- requiring us, our PRC subsidiaries or Beijing Champion or its subsidiaries to restructure our relevant ownership structure, operations or contractual arrangements; and
- taking other regulatory or enforcement actions that could be harmful to our business.

If the regulatory authorities take any of the above-mentioned measures against us, we may have to cease our business operations and our reputation will be severely damaged, which in turn will materially and negatively affect our financial condition and results of operations.

Our contractual arrangements may be subject to national security review under PRC laws and regulations and, thus, be challenged by relevant regulatory authorities.

On February 3, 2011, the General Office of the State Council issued the Circular of the General Office of the State Council on the Establishment of Security Review System for Foreign Investors’ Merger and Acquisition of Domestic Enterprises (the “Circular on the Establishment of Security Review”), which became effective on March 4, 2011. Among other things, the Circular on the Establishment of Security Review stipulates that the scope of the security review lies in foreign investors’ acquisition of domestic military enterprises, military-related enterprises, enterprises involving sensitive military facilities and other enterprises that impact national defense security; foreign investors’ acquisition of domestic enterprises which may provide foreign investors with de facto control over industries relating to national security, such as important agricultural products, energy and natural resources, infrastructures, transportation services, technologies and major equipment manufacturing. On August 25, 2011, the Ministry of Commerce issued the Circular of the Ministry of Commerce on the Implementation of Security Review System for Foreign Investors’ Merger and Acquisition of Domestic Enterprises (the “Circular on the Implementation of Security Review”), which became effective on September 1, 2011. Among other things, the Circular on the Implementation of Security Review further specifies that whether a foreign investors’ acquisition of domestic enterprises falls within the scope of the security review depends on the said transaction’s substantive content and practical influence. Foreign investors shall not circumvent the security review through any arrangements or schemes, including but not limited to trust, lease and/or contractual arrangements.

According to our PRC counsel, as our contractual arrangements were established in 2004, the new security review system shall not apply to our contractual arrangements. We cannot guarantee, however, that the Ministry of Commerce will not promulgate additional implementing rules or new rules that will bring our contractual arrangements under the scope of the security review system. Moreover, according to a press conference held by the Ministry of Commerce on September 20, 2011, there are no specific laws or regulations governing contractual arrangements like the ones that we employ, but the Ministry of Commerce together with other authorities would study how to regulate them in the future. Hence, we cannot assure you that our contractual arrangements will not be subject to new regulations that will be issued by relevant regulatory authorities and that such new regulations will not have a material adverse effect on our existing structure.

We rely on contractual arrangements with our affiliated PRC entity and its shareholders for our China operations, which may not be as effective in providing operating control as direct ownership. If any of Beijing Champion or its shareholders fails to perform its or their 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.

PRC laws and regulations restrict foreign ownership in Internet-related content distribution businesses. Because of these restrictions, we conduct our business and derive related revenues through contractual arrangements among CDEL Hong Kong, our PRC subsidiaries, Beijing Champion, and its shareholders, Mr. Zhengdong Zhu and Ms. Baohong Yin. We have no direct ownership interest in Beijing Champion. These contractual arrangements may not be as effective in providing us with control over Beijing Champion as direct ownership. If we were the controlling shareholder of Beijing Champion with direct ownership, we would be able to exercise our rights as shareholders to effect changes in the board of directors, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, as a legal matter, if Beijing Champion fails to perform its 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 PRC law, including contract remedies, which we cannot be sure would be effective. In the event that we are unable to enforce these contractual arrangements, or if we suffer significant delays or other obstacles in the process of enforcing these contractual arrangements, our business, financial condition and results of operations could be materially and adversely affected.

In addition, these contractual arrangements, including the Technical Support and Consultancy Services Agreement, Equity Pledge Agreements, Exclusive Purchase Rights Agreement, and the related Powers of Attorney, are governed by PRC law, and most of these agreements (excluding the Powers of Attorney) provide for the resolution of disputes through arbitration before the China International Economic and Trade Arbitration Center, or CIETAC, in Beijing. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes arising from these arrangements would be resolved through arbitration before CIETAC or, in the case of disputes arising from the Powers of Attorney, through litigation in the PRC, in each case in accordance with PRC legal procedures. Furthermore, although CIETAC may award the same type of relief to the prevailing party in an arbitration proceeding as that granted by a court in a civil action, CIETAC does not have the authority to enforce arbitral awards. In the event that we prevail in an arbitration proceeding before CIETAC, we may nevertheless have to apply to a PRC court for the enforcement of the arbitral award relating to the contractual arrangements. The legal environment in the PRC may not be as developed as in some other jurisdictions, such as the United States. See “—General Risks Relating to Conducting Business in China —The PRC legal system embodies uncertainties that could limit the legal protections available to you and us.” As a result, although the enforceability of the contractual arrangements may not be affected, the manner of enforcement may be unclear. In the event that we are unable to enforce these contractual arrangements to the fullest extent, we may not be able to exert effective control over our affiliated entities, and our ability to conduct our business would be materially and adversely affected.

Pursuant to the Equity Pledge Agreements entered into by Champion Technology and Mr. Zhengdong Zhu and Ms. Baohong Yin, respectively, Mr. Zhengdong Zhu and Ms. Baohong Yin agree to pledge their equity interests in Beijing Champion to us to secure Beijing Champion’s performance of its obligations under the relevant contractual arrangements. The equity pledges under these Equity Pledge Agreements have been registered with the relevant local branch of the State Administration for Industry and Commerce, or SAIC. According to the PRC Property Law and PRC Guarantee Law, the pledgee and the pledgor are prohibited from making an agreement prior to the expiration of the debt performance period to transfer the ownership of the pledged equity to the pledgee when the obligor fails to pay the debt due. However, under the PRC Property Law, when an obligor fails to pay its debt when due, the pledgee may choose to either conclude an agreement with the pledgor to obtain the pledged equity or seek payments from the proceeds of the auction or sell-off of the pledged equity. If Beijing Champion or its shareholders fails to perform its obligations secured by the pledges under the Equity Pledge Agreements, one remedy in the event of default under the agreements is to require the pledgor to sell the equity interests of Beijing Champion in an auction or private sale and remit the proceeds to us, net of related taxes and expenses. Such an auction or private sale may not result in our receipt of the full value of the equity interests in Beijing Champion.

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

Mr. Zhengdong Zhu and Ms. Baohong Yin are husband and wife, and shareholders of Beijing Champion, holding equity interests of 79% and 21%, respectively. The interests of Mr. Zhu and Ms. Yin as shareholders of Beijing Champion may differ from our interests. Although both of Mr. Zhu and Ms. Yin have given undertakings to act in the best interests of Champion Technology, we cannot assure you that when conflicts arise, these individuals will act in our best interests or that conflicts will be resolved in our favor. In addition, Mr. Zhu and Ms. Yin may breach or cause Beijing Champion and its subsidiaries to breach or refuse to renew the existing contractual arrangements with us. Currently, we do not have arrangements to address potential conflicts of interest Mr. Zhu or Ms. Yin may encounter in his or her capacity as a record owner and director of Beijing Champion, on the one hand, and as a beneficial owner and director of our company, on the other hand. We rely on Beijing Champion, Mr. Zhu and Ms. Yin to comply with the laws of China, which protect contracts, including the contractual arrangements among Beijing Champion, its subsidiaries, its shareholders and us, which provide that Mr. Zhu and Ms. Yin should act in the best interest of our company despite being record owners of Beijing Champion. We also rely on Mr. Zhu and Ms. Yin to abide by the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly, in good faith and in our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes among us, Beijing Champion, Mr. Zhu and Ms. Yin, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

We may lose the ability to use and enjoy assets held by Beijing Champion and its subsidiaries that are important to the operation of our business if any of such entities goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

As part of our contractual arrangements with Beijing Champion, Beijing Champion and its subsidiaries hold certain assets that are important to the operation of our business. If Beijing Champion or any of its subsidiaries goes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If Beijing Champion or any of its subsidiaries undergoes a voluntary or involuntary liquidation proceeding, the unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

Contractual arrangements among us, our subsidiaries, subsidiary of Beijing Champion and Beijing Champion may be subject to scrutiny by the PRC tax authorities and a finding that we, subsidiary of Beijing Champion or Beijing Champion owe additional taxes could substantially reduce our consolidated net income.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements and transactions among our subsidiaries, subsidiary of Beijing Champion and Beijing Champion do not reflect an arm's length price and adjust the income of our subsidiaries, or that of Beijing Champion or its subsidiary by means of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by Beijing Champion, which could in turn increase its respective tax liabilities without reducing tax expenses of our subsidiaries and subsidiary of Beijing Champion. In addition, the PRC tax authorities may impose late payment fees and other penalties on Beijing Champion for underpayment of taxes. Our consolidated net income may be materially and adversely affected if Beijing Champion's tax liabilities increase or if it is found to be subject to late payment fees or other penalties.

We may rely principally on dividends and other distributions on equity paid by our PRC subsidiaries for our cash requirements, but such dividends and other distributions are subject to restrictions under PRC law. Limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely affect our ability to grow, make investments or acquisitions, pay dividends, and otherwise fund and conduct our businesses.

Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. However, our PRC subsidiaries are required under PRC laws and regulations to allocate a portion of their annual after-tax profits, if any, to certain statutory reserves and funds prior to declaring and remitting dividends. For example, our PRC subsidiaries are required to allocate at least 10% of their after-tax profits to statutory reserves each year until such reserves reach 50% of their respective registered capital. Allocations to these statutory reserves and funds can be used only for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us.

If we lose control over the chops, seals or business licenses or private non-enterprise entity registration certificates of Beijing Champion and its subsidiaries, our business and operations could be materially and adversely affected.

Our PRC affiliated entity Beijing Champion and its subsidiaries have certain controlling non-tangible assets, such as chops, seals and their business licenses for entering into contracts, dealing with banks or taking certain official actions including registering any change to the composition of the board or senior management team with relevant PRC authorities.

Under the PRC law, legal documents for various transactions, including government filings, agreements and contracts, are executed using chops or seals of the signing entity or with the signature of the legal representative whose designation is registered and filed with the relevant industry and commerce administration authorities. We generally execute legal documents by affixing chops or seals, rather than having the designated legal representatives sign the documents. Beijing Champion and its subsidiaries have four types of chops and seals: the entity chop, the contract chop, the legal representative seal and the finance chop. The entity chop is generally used for documents to be submitted to government agencies, such as applications for changing business scope, directors or entity name, and for other legal letters. The contract chop is used for executing leases and commercial contracts, including service contracts with our course participants. The legal representative seal is normally used for issuing checks. The finance chop is generally used for making and collecting payments, including, but not limited to issuing invoices. Beijing Champion's and its subsidiaries' business licenses are required to be presented for (i) application, registration and modification of other licenses and qualifications; (ii) opening bank accounts and (iii) purchase of real properties or motor vehicles.

Under the internal policies adopted by us for Beijing Champion and its subsidiaries, the use of chops and seals must be approved by the top management before the custodians, normally one of the top ranking managers of these assets, may affix the chops and seals to legal documents for approved uses. The management's approval is required before the business licenses of Beijing Champion and its subsidiaries can be taken offsite.

Similar to the other aspects of Beijing Champion's and its subsidiaries' business operations, we control Beijing Champion's and its subsidiaries' controlling non-tangible assets through our control over Beijing Champion and its subsidiaries, which in turn is based on our contractual arrangements with Beijing Champion and its shareholders, rather than through direct ownership. As one of the measures to maintain the control over Beijing Champion and its subsidiaries, we appoint the legal representatives and the senior management team for each of Beijing Champion and its subsidiaries. To maintain their physical security, we require all chops, seals, business licenses to be stored in secured locations accessible only to the designated custodians.

Our procedures and measures may not be sufficient to prevent all instances of abuse or unauthorized actions. If we fail to maintain effective control over these controlling non-tangible assets for any reason, or if any of these controlling non-tangible assets were misused or misappropriated by the authorized users, whether as a result of labor disputes or other disputes, such persons' malfeasance or any other reason, these controlling non-tangible assets may be used to (i) transfer assets of the affected entities without our approval, (ii) bind the affected entities with obligations against our interest which we would be forced to fulfill, (iii) obstruct the affected entities' cash flow and financing, or (iv) prevent the affected entities from completing the required administrative procedures, which will result in the loss of such entities' valid existence. If the legal representative or person designated with the responsibility to control the non-tangible assets of a local entity of Beijing Champion and its subsidiaries misuses or misappropriates the controlling intangible assets in any manner, or otherwise acts against our instruction in an effort to seize control over such entity, we would need to have a shareholder or board resolution to take legal actions to seek the return of these assets, apply to the relevant authorities for new chops, seals, business licenses or private non-enterprise entity registration certificates, or otherwise seek legal remedies against such person, which may be time-consuming and may not be sufficient or timely to remedy all the harms caused. During any period in which we lose effective control of the activities as a result of such loss of control over or misuse or misappropriation of these non-tangible assets, the business activities of the affected entity may be severely disrupted and we could lose the economic benefits of that aspect of Beijing Champion and its subsidiaries' business, which may materially and adversely affect our overall business operations, our financial position and results of operations.

If any of our affiliated entities fails to obtain and maintain the licenses and approvals required to conduct its business in China, our business, financial condition and results of operations may be materially and adversely affected.

The Internet industry in China is highly regulated by the PRC government. Various regulatory authorities of the central PRC government are empowered to issue and implement regulations governing various aspects of the Internet industry. Each of our affiliated entities including Beijing Champion, Caikaowang, Zhengbao Yucai and Champion Wangge is required to obtain and maintain applicable licenses or approvals from different regulatory authorities in order to provide its current services. Our affiliated entities have obtained primary approvals including an ICP license for our 17 websites. These licenses are essential to the operation of our business and are generally subject to annual review by the relevant governmental authorities. Our affiliated entities, however, may be required to obtain additional licenses, such as an Internet Publishing License for engaging in Internet publishing and an Internet News Information Services Provision Approval for engaging in distribution of news through the Internet. If any of our affiliated entities fails to obtain or maintain any of the required licenses or approvals, its continued business operations in the Internet industry may subject it to various penalties, such as confiscation of illegal revenues, fines and the discontinuation or restriction of its operations. Any such disruption in the business operations of our affiliated entities will materially and adversely affect our business, financial condition and results of operations.

If we are unable to re-register or obtain the necessary license as required by the Administrative Measures Regarding Internet Audio-Video Program Services, or the Internet Audio-Video Program Measures, in a timely manner or at all, our equity ownership structure may require significant restructuring, or we may become subject to significant penalties, fines, legal sanctions or an order to suspend our use of audio-video content, in which case our business, financial condition and results of operations may be materially and adversely affected.

On December 20, 2007, the State Administration of Press Publication Radio Film and Television, or SAPPRFT, and the MIIT issued the Internet Audio-Video Program Measures, which became effective on January 31, 2008. Among other things, the Internet Audio-Video Program Measures stipulate that no entities or individuals may provide Internet audio-video program services without a License for Disseminating Audio-Video Programs through Information Network issued by SAPPRFT or its local counterparts or completing the relevant registration with SAPPRFT or its local counterparts and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transfer to the public through the Internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. On February 3, 2008, SAPPRFT and MIIT jointly held a press conference in response to inquiries related to the Internet Audio-Video Program Measures, during which SAPPRFT and MIIT officials indicated that providers of audio-video program services established prior to the promulgation date of the Internet Audio-Video Program Measures that do not have any regulatory non-compliance records can re-register with the relevant government authorities to continue their current business operations. After the conference, the two authorities published a press release that confirms the above guidelines. On September 15, 2009, SAPPRFT promulgated a notice regarding the issues of management of Internet Audio-Video Program Services License, which provides that the application for re-registration of the Internet Audio-Video Program Services License shall be closed on December 20, 2009.

Due to uncertainties with respect to the interpretation and application of the Internet Audio-Video Program Measures, each year, we and our PRC counsel consult the Beijing Branch of SAPPRFT, or Beijing SAPPRFT, which is the competent authority in Beijing to grant the License for Disseminating Audio-Video Programs through Information Network, regarding whether online education services providers like us that provide audio-video educational courses and programs through the Internet only to enrolled course participants should apply for the said license. Prior to 2011, the officials in Beijing SAPPRFT consistently conveyed to us that we were not required to apply for the said license as we only transmit audio-video educational courses and programs through the Internet to enrolled course participants instead of the general public. However, in January 2011, a joint administrative enforcement commission of the Beijing government (including Beijing SAPPRFT) issued a warning to us and fined us RMB6,000 (\$897) for providing audio-video educational courses without obtaining the License for Disseminating Audio-Video Programs through Information Network. Thereafter, we submitted our application for such license to Beijing SAPPRFT. On August 1, 2011, Beijing SAPPRFT sent us an official response stating that it determined that we are not required to obtain the License for Disseminating Audio-Video Programs because our numerous education-related activities do not fall under the “Internet audio-visual services program.” We cannot guarantee that Beijing SAPPRFT will not change its position or that the reply will not be challenged by higher authorities in China, or that we will not be asked to obtain the said license again. If the regulatory authorities take any such action against us, it may materially and adversely affect our business. Moreover, if we are asked to re-register with relevant authorities or obtain the required license, we cannot assure you that our future application(s) will be approved by relevant authorities in a timely manner or at all. If we are subsequently required to and are unable to re-register or obtain the necessary license timely, or at all, due to reasons beyond our control, our equity ownership structure may require significant restructuring, or we may become subject to significant penalties, fines, legal sanctions or an order to suspend our use of audio-video content, any of which could have a material adverse effect on our business, financial condition, results of operations, and prospects, as well as the trading price of our ADSs.

Regulation and censorship of information distribution over the Internet in China may adversely affect our business, and we may be liable for information displayed on, retrieved from or linked to our websites.

China has enacted laws and regulations governing Internet access and the distribution of news, information, audio-video programs and other content, as well as products and services, through the Internet. In the past, the PRC government has prohibited the distribution of information through the Internet that it deems in violation of PRC laws and regulations. Under regulations promulgated by the State Council, MIIT, the State Press and Publication Administration and the Ministry of Culture, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet content that, among other things:

- opposes the fundamental principles of the PRC constitution;
- compromises state security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;

- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- sabotages China's religious policy or propagates heretical teachings or feudal superstition;
- disseminates rumors, disturbs social order or disrupts social stability;
- propagates obscenity, pornography, gambling, violence, murder, fear or abets the commission of crimes;
- insults or slanders a third party or infringes upon the lawful rights of a third party; and
- includes other content prohibited by laws or regulations.

If any of our Internet content were deemed by the PRC government to violate any of the above content restrictions, we would not be able to continue to display such content and could become subject to penalties, including confiscation of income, fines, suspension of business and revocation of required licenses, which could materially and adversely affect our business, financial condition and results of operations. We may also be subject to potential liability for any unlawful actions of our clients or affiliates or for content we distribute that is deemed inappropriate. It may be difficult to determine the type of content that may result in liability to us, and if we are found to be liable, we may be prevented from operating our websites in China.

General Risks Relating to Conducting Business in China

PRC 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 education market, which in turn could adversely affect our business.

Substantially all of our operations are conducted in China, and substantially all of our revenues are derived from China. Accordingly, our business, financial condition, results of operations, prospects and certain transactions we may undertake are subject, to a significant extent, to economic, political and legal developments in China.

The PRC 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 PRC economy has experienced significant growth in 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 our potential course participants to delay or cancel their plans to participate in our education courses, which in turn could reduce our net revenues.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC 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 education market, which could harm our business.

The PRC government has implemented various measures to encourage foreign investment and sustainable economic growth and to guide the allocation of financial and other resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. As the PRC economy is increasingly intricately linked to the global economy, it is affected in various respects by downturns and recessions of major economies around the world, such as the recent financial services and economic crises of these economies. The various economic and policy measures the PRC government adopts to forestall economic downturns or shore up the PRC economy may adversely affect our business. We cannot assure you that the PRC 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 tumultuous relations with some of its neighbors and a significant further deterioration in such relations could have negative effects on the PRC economy and lead to changes in governmental policies that would be adverse to our business interests.

Evolution of and uncertainties in the interpretation and enforcement of PRC laws and regulations could adversely impact our corporate structure and business and limit the legal protections available to you and us.

Unlike common law systems, the PRC legal system is based on written statutes and decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters. The overall effect of legislation since then has been to significantly enhance the protections afforded to various forms of foreign investment in China. Our PRC operating subsidiaries, Champion Technology and Champion Education Technology, are wholly foreign-owned enterprises, 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 PRC affiliated entities, Beijing Champion, Caikaowang, Champion Wangge, Beijing Haidian District Champion Training School, or Champion Training School, and Zhengbao Yucai, are subject to laws and regulations governing the formation and conduct of domestic PRC companies. Relevant PRC laws, regulations and legal requirements may change frequently, and their interpretation and enforcement involve uncertainties. For example, the Ministry of Commerce published the draft Foreign Investment Law for public comments on January 19, 2015, with the intention of reducing regulation of foreign investment in general while also attempting to regulate new types of foreign investment in China, including those utilizing variable interest entity structure. We utilize variable interest entities in our group structure and may be subject to stricter regulation if the Foreign Investment Law comes into effect. In addition, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than under more developed legal systems. Such uncertainties, including the inability to enforce our contracts and intellectual property rights, could materially and adversely affect our business and operations. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with respect to the education sector, 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 adversely impact our corporate structure and business and limit the legal protections available to us and other foreign investors.

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

We report our financial results in U.S. dollars, and appreciation or depreciation in the value of the Renminbi (which is the currency in which substantially all of our revenues and expenditures are denominated) relative to the U.S. dollar would affect our financial results reported in U.S. dollars terms without giving effect to any underlying change in our business or results of operations. Fluctuations in the exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future.

The Renminbi'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 and China's foreign exchange policies. The People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate and achieve certain exchange rate targets, and through such intervention kept the U.S. dollar-Renminbi exchange rate relatively stable within a very narrow range against the U.S. dollar (remaining within 1% of its July 2008 high) for almost two years from July 2008. On June 20, 2010, the People's Bank of China announced that the PRC government would further reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. On March 15, 2014, the People's Bank of China announced that it further expanded the daily RMB against U.S. dollar trading band of the inter-bank spot foreign exchange market from 1% to 2% as of March 17, 2014, to allow Renminbi to move more freely and better reflect market supply and demand. However, it remains unclear how this announcement might be implemented. There remains significant international pressure on the PRC government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant change in the value of the Renminbi against the U.S. dollar.

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 PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

The discontinuation of any of the preferential tax treatments currently available to our PRC subsidiary, Champion Technology and affiliated entities, Beijing Champion and Zhengbao Yucai, could materially increase our tax liabilities.

Prior to January 1, 2008, under applicable PRC tax laws, companies established in China were generally subject to an enterprise income tax, or EIT, at the statutory rate of 33%. However, certain types of foreign-invested enterprises and high and new technology enterprises located in certain specified high-tech zones were entitled to preferential tax treatments. Under the then applicable PRC tax laws, each of our two PRC subsidiaries, Champion Technology and Champion Education Technology, had been granted preferential EIT treatment based on their status as foreign-invested enterprises and their status as high and new technology enterprises operating in Beijing Zhongguancun Science Park. Our PRC affiliated entity, Beijing Champion had been granted preferential EIT treatment based on its status as a high and new technology enterprise operating in the Zhongguancun Science Park.

In March 2007, the National People's Congress enacted the Enterprise Income Tax Law, or the EIT Law, and in December 2007, the State Council promulgated the implementation rules of the EIT Law, both of which became effective on January 1, 2008. The EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the previous tax law. The EIT Law, however, (i) reduces the statutory 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, enterprises established before the promulgation date of the EIT Law and which were granted preferential EIT treatment under the then effective tax laws or regulations may continue to enjoy their preferential tax treatments until their expiration. Accordingly, Champion Technology, an enterprise established before the promulgation date of the EIT Law, continued to enjoy its preferential treatment under the phase-out rules, whereas Champion Education Technology, established after the promulgation date, was no longer entitled to its preferential treatment as of January 1, 2008. The EIT Law and its implementing rules permit qualified "high and new technology enterprises" to enjoy a reduced 15% EIT rate. The qualification criteria are significantly higher than those prescribed by the old tax rules under which we had been granted preferential treatment. Champion Education Technology no longer qualified for the 15% reduced tax rate under the new criteria and became subject to the statutory 25% EIT rate as of January 1, 2008. Beijing Champion and Champion Technology obtained the qualification certificates of high and new technology enterprises under the EIT Law on December 24, 2008 with a valid period of three years starting from January 1, 2008 and renewed the certificates in 2011 for another three years. Beijing Champion and Champion Technology have successfully obtained renewed qualification certificates of high and new technology enterprises upon the expiration of such certificates in 2014. As a result, Beijing Champion was and will be subject to the tax rate of 15% from 2008 through 2016. Champion Technology was subject to the tax rate of 7.5% for 2008 through 2009 and was and will be subject to 15% from 2010 through 2016. In addition, Zhengbao Yucai obtained the qualification certificate of high and new technology enterprise under the EIT Law on November 12, 2012 with a valid period of three years starting from January 1, 2012. As a result, Zhengbao Yucai was subject to the tax rate of 15% from 2012 through 2014. The continued qualification of a high and new technology enterprise will be subject to annual evaluation and a three-year review by the relevant government authority in China. The PRC tax policies, interpretations, and practices regarding the overlap, phase-out, and transition of preferential treatments is subject to continuous change and uncertainty and we cannot assure you that Beijing Champion, Champion Technology and Zhengbao Yucai will continue to qualify as high and new technology enterprises under the EIT Law, enjoy the preferential treatments under the phase-out rules, not encounter any challenges regarding past application for such treatments, or that the local tax authorities will not, in the future, change their position and revoke any of our past preferential tax treatments. The discontinuation of any of our preferential tax treatments could materially increase our tax obligations.

Any increase in the enterprise income tax rate applicable to us or discontinuation or reduction of any of the preferential tax treatments currently enjoyed by our PRC subsidiary, Champion Technology and affiliated entities, Beijing Champion and Zhengbao Yucai, could adversely affect our business, operating results and financial condition.

Under China's EIT Law, we may be classified as a "resident enterprise" of China. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.

Under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," and will generally be subject to the uniform 25% PRC enterprise income tax rate on its global income. The implementing rules of the EIT Law define de facto management as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation (the "SAT"), or Circular 82, on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a "resident enterprise" with its "de facto management bodies" located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and (iv) at least half of the enterprise's directors with voting right or senior management reside in the PRC. In addition, the SAT issued the Announcement of the SAT on Printing and Distributing the Administrative Measures for Oversea Registered Chinese-capital Controlled Tax Resident Enterprises (Trial), the Announcement 45, on July 27, 2011, effective September 1, 2011, providing more guidance on the implementation of Circular 82. Announcement 45 clarifies matters including residence status determination, post-determination administration and competent tax authorities.

Our management is currently based in China and expected to remain in China. However, Circular 82 and Announcement 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign corporations like us. In the absence of detailed implementing regulations or other guidance determining that offshore companies controlled by PRC individuals or foreign corporations like us are PRC resident enterprises, we do not currently consider CDEL Cayman to be a PRC resident enterprise. However, the SAT may take the view that the determining criteria set forth in Circular 82 and Announcement 45 reflect general position on how the "de facto management body" test should be applied in determining the tax resident status of all offshore enterprises. Or additional implementing regulations or guidance may be issued determining that CDEL Cayman is a "resident enterprise" for PRC enterprise income tax purposes. The "resident enterprise" rule could be applied to CDEL Hong Kong as our intermediate holding company, Practice Enterprises Network China International Links Limited, or PENCIL, and DL Education Service, LLC, or DL Education with similar consequences. If the PRC tax authorities determine that CDEL Cayman, CDEL Hong Kong, PENCIL and DL Education are "resident enterprises" for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income, as well as PRC enterprise income tax reporting obligations. Second, although under the EIT Law and its implementing rules, a dividend income between qualified resident enterprises is a "tax-exempt income," we cannot guarantee that dividends paid to CDEL Cayman from our PRC subsidiaries through CDEL Hong Kong would qualify as "tax-exempt income" and will not be subject to withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as "resident enterprises" for PRC enterprise income tax purposes. Finally, the new "resident enterprise" classification could result in a situation in which a 10% withholding tax is imposed on dividends we pay to our non-PRC enterprise shareholders and gains derived by our non-PRC enterprise shareholders from transferring our shares or ADSs are also subject to 10% withholding tax, if such income is considered PRC-sourced income by the relevant PRC authorities. This could have the effect of increasing our and our shareholders' effective income tax rates and could also have an adverse effect on our net income and results of operations, and may require us to deduct withholding tax amounts from any dividends we pay to our non-PRC shareholders.

In addition to the uncertainty in how the new "resident enterprise" classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. We are actively monitoring the possibility of "resident enterprise" treatment for the 2014 tax year and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

We may not be able to obtain certain treaty benefits on dividends paid to us by our PRC subsidiaries through our Hong Kong Subsidiary.

Under the EIT Law and its implementing rules, dividends generated from retained earnings after January 1, 2008 from a PRC company and distributed to a foreign parent company are subject to a withholding tax rate of 10% unless the foreign parent's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, or the Hong Kong Tax Treaty, which became effective on December 8, 2006, a company incorporated in Hong Kong, such as CDEL Hong Kong, will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in those particular PRC subsidiaries, or 10% if it holds less than a 25% interest in those subsidiaries. However, the SAT promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits. On June 29, 2012, the SAT further issued the Announcement of the SAT regarding Recognition of "Beneficial Owner" under Tax Treaties, or Announcement 30, which provides that a comprehensive analysis should be made when determining the beneficial owner status based on various factors supported by various types of documents including the articles of association, financial statements, records of cash movements, board meeting minutes, board resolutions, staffing and materials, relevant expenditures, functions and risk assumption as well as relevant contracts and other information. As a result, although our two PRC subsidiaries, Champion Education Technology and Champion Technology, are currently wholly owned by our Hong Kong subsidiary, CDEL Hong Kong, we cannot assure you that we would be entitled to the tax treaty benefits and enjoy the favorable 5% rate applicable under the Hong Kong Tax Treaty on dividends. If CDEL Hong Kong cannot be recognized as the beneficial owner of the dividends to be paid by Champion Education Technology and Champion Technology to us, such dividends will be subject to a normal withholding tax of 10% as provided by the EIT Law and its implementing rules.

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

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006, and was amended on June 22, 2009. The M&A Rule, among other things, has certain provisions that require offshore special purpose vehicles, or SPVs, formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to listing their securities on an overseas stock exchange. We believe, based on the opinion of our PRC legal counsel, Jingtian & Gongcheng, that while the CSRC generally has jurisdiction over overseas listings of SPVs like us, CSRC's approval was not required for our initial public offering given the fact that our current corporate structure was established before the new regulation became effective. However, there remains some uncertainty as to how this regulation will be interpreted or implemented in the context of an overseas offering. If the CSRC or another PRC regulatory agency subsequently determines that its approval was required for our initial public offering, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating activities in the PRC, delay or restrict capital contribution or shareholder loans by us to our PRC subsidiaries, restrict or prohibit payment or remittance of dividends by our PRC subsidiaries to us 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.

Complex procedures under PRC regulations for some acquisitions of PRC companies by foreign entities 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 PRC companies by foreign entities, such as ours, 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 entity takes control of a PRC domestic enterprise. In addition, national security review rules issued by the PRC governmental authorities in 2011 require acquisitions by foreign investors of domestic companies engaged in military-related or certain other industries that are crucial to national security to be subject to prior security review. Moreover, the Anti-Monopoly Law requires that the Ministry of Commerce shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In the future, we may grow our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rule, the Anti-Monopoly Law, the security review rules, and other PRC regulations 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.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may restrict our ability to make loans to our PRC subsidiaries and PRC affiliated entities or to make additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and our PRC affiliated entities. From time to time, we plan to make loans to our PRC subsidiaries, whether currently in existence or to be formed in the future, and to our PRC affiliated entities, whether currently in existence or to be formed in the future, or make additional capital contributions to our PRC subsidiaries.

Any loans we make to our PRC subsidiaries cannot exceed statutory limits and must be registered with the State Administration of Foreign Exchange, or SAFE, or its local counterparts. Under applicable PRC law, the government authorities must approve a foreign-invested enterprise's registered capital amount, which represents the total amount of capital contributions made by the shareholders that have been registered with the registration authorities. In addition, the authorities must also approve the foreign-invested enterprise's total investment, which represents the total statutory capitalization of the company, equal to the company's registered capital plus the amount of loans it is permitted to borrow under the law. The ratio of registered capital to total investment cannot be lower than the minimum statutory requirement and the excess of the total investment over the registered capital represents the maximum amount of borrowings that a foreign invested enterprise is permitted to have under PRC law. If we were to make loans to our PRC subsidiaries, we would have to apply to the relevant government authorities for an increase in their permitted total investment amounts. The various applications could be time-consuming and their outcomes may be uncertain. Furthermore, even if we make loans to our PRC subsidiaries that do not exceed their current maximum amount of borrowings, we will have to register each loan with SAFE or its local counterpart for the issuance of a registration certificate of foreign debts. In practice, it could be time-consuming to complete such SAFE registration process. Concurrently with the loans, we might have to make capital contributions to these subsidiaries to maintain the statutory minimum registered capital and total investment ratio, and such capital contributions involve uncertainties of their own. Further, SAFE promulgated another circular (known as Circular 142) in August 2008 with respect to the administration of conversion of foreign exchange capital contributions of a foreign invested enterprise. The circular clarifies that Renminbi converted from foreign exchange capital contributions can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investments unless otherwise permitted. In addition, SAFE promulgated a circular on November 9, 2010, or Circular 59, which requires the authenticity of settlement of the fund from offshore offerings to be closely examined and such fund to be settled in the manner described in the offering documents. Furthermore, it has come to our attention that SAFE issued an internal guideline to its local counterparts, referred to as Circular 45, in November 2011. Circular 45 has never been formally announced by SAFE to the public or posted on SAFE's website. Based on the version of Circular 45 made publicly available by certain local governmental authorities on their websites, we understand that Circular 45 requires SAFE's local counterparts to strengthen the control imposed by Circulars 142 and 59 over the conversion of a foreign-invested company's capital contributed in foreign currency into RMB. Circular 45 stipulates that a foreign-invested company's RMB funds, if converted from such company's capital contributed in foreign currency, may not be used by such company to (i) extend loans (in the form of entrusted loans), (ii) repay borrowings between enterprises, or (iii) repay bank loans it has obtained and on-lent to third parties. Because our PRC affiliated entities are domestic PRC entities, we are not likely to finance their activities by means of direct capital contributions due to regulatory issues relating to foreign investment in the online education industry, as well as the licensing and other regulatory issues discussed in "Item 4.B. Information on the Company — Business Overview — Regulations." Any loans we make to any of our PRC affiliated entities, which is treated as a PRC domestic company rather than a foreign-invested enterprise under PRC law, are also subject to various PRC regulations and approvals. Under applicable PRC regulations, international commercial loans to PRC domestic companies are subject to various government approvals.

We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or PRC affiliated entities or with respect to future capital contributions by us to our PRC subsidiaries. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries' ability to increase their registered capital or distribute profits.

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

We may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and cannot assure you that all of our PRC-resident beneficial owners will comply with SAFE Circular 37 and subsequent implementation rules. The failure of our beneficial owners who are PRC residents to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular 37 and subsequent implementation rules, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37 and subsequent implementation rules, may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Furthermore, since SAFE Circular 37 was recently promulgated and it is unclear how this regulation, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant PRC government authorities, we cannot predict how these regulations will affect our business operations or future strategy. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Substantially all of our revenues and operating expenses are denominated in Renminbi. Restrictions on currency exchange imposed by the PRC 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 PRC 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 PRC 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.

However, conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to "capital account transactions," which principally includes investments and loans, generally requires the approval of SAFE and other relevant PRC governmental authorities. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our PRC 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.

Any existing and future restrictions on currency exchange may affect the ability of our PRC subsidiaries or affiliated entities to obtain foreign currencies, limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China that are denominated in foreign currencies, or otherwise materially and adversely affect our business.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us or our management.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, most of our directors and executive officers reside outside the United States. As a result, it may be difficult to effect service of process upon us or our directors or executive officers. In addition, you may find it difficult or impossible to bring an action against us or our directors or executive officers in a PRC court if you believe your rights have been infringed under the U.S. federal securities law or otherwise. Moreover, our PRC counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of court orders.

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

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board (United States), or the “PCAOB”, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in the Peoples’ Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditor is not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor’s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

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

Proceedings instituted by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act against the Chinese affiliates of the “big four” accounting firms (including our auditor) and also against Dahua (the former BDO affiliate in China). The Rule 102(e) proceedings initiated by the SEC relate to these firms’ inability to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act, as the auditors located in the PRC are not in a position lawfully to produce documents directly to the SEC because of restrictions under PRC law and specific directives issued by the CSRC. The issues raised by the proceedings are not specific to our auditor or to us, but affect equally all audit firms based in China and all China-based businesses with securities listed in the United States.

In January 2014, the administrative judge reached an Initial Decision that the “big four” accounting firms should be barred from practicing before the SEC for six months. However, it is currently impossible to determine the ultimate outcome of this matter as the accounting firms have filed a Petition for Review of the Initial Decision and pending that review the effect of the Initial Decision is suspended. The SEC Commissioners will review the Initial Decision, determine whether there has been any violation and, if so, determine the appropriate remedy to be placed on these audit firms. Once such an order was made, the accounting firms would have a further right to appeal to the US Federal courts, and the effect of the order might be further stayed pending the outcome of that appeal.

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

Public shareholders of China-based, U.S.-listed companies and other market participants may no longer have access to a wide array of corporate records of such listed companies' PRC entities filed with industry and commerce administration authorities in China. Loss of, or limit in, the access to such information may adversely affect overall investor confidence in China-based, U.S.-listed companies' reported results or other disclosures, including those of our company, and may cause the trading price of our ADSs to decline.

All PRC corporate entities, including Champion Technology, Champion Education Technology, Beijing Champion and its subsidiaries, maintain corporate records and filings with industry and commerce administration authorities in the cities where such PRC entities are registered. Information contained in such corporate records and filings includes, among others, business address, registered capital, business scope, articles of association, equity interest holders, legal representative, changes to the above information, annual financial reports, matters relating to termination or dissolution and information relating to penalties imposed.

There have been regulations promulgated by various government authorities in China that govern the public access to corporate records and filings. Under the Measures for Accessing Corporate Records and Filings promulgated on December 16, 1996 by the State Administration of Industry and Commerce (the "SAIC"), or the SAIC measures, corporate records such as registration records, registration documents submitted for approval, records relating to the change of the enterprise, records relating to the cancellation or revocation of the enterprise and records relating to the supervision and inspection of the enterprise can be inspected by the public through computers without restrictions, while a company's book records and filings can only be inspected by authorized government officials or lawyers involved in pending litigation relating to such company and with court-issued proof of such litigation. In practice, local industry and commerce administration authorities in different cities have adopted various regional regulations which impose more stringent restrictions than the SAIC measures by restricting the scope of information that the public can freely access. Many local industry and commerce administration authorities only allow unrestricted public access to such basic corporate information as name, legal representative, registered capital and business scope of a company. Under these local regulations, access to the other corporate records and filings (many of which are not subject to restriction on access under the SAIC measures) is only granted to authorized government officials or lawyers involved in pending litigation relating to such company and with court-issued proof of such litigation.

However, neither the SAIC nor the local industry and commerce administration authorities were reported to have strictly implemented the restrictions under either the SAIC measures or the various regional regulations before early 2012. As a result, before early 2012, the public, including public shareholders of China-based, U.S.-listed companies and other market participants, such as lawyers and research firms, were reported to be able to access all or most corporate records and filings of these listed companies' PRC entities maintained with the industry and commerce administration authorities. Such records and filings were reported to have formed important components of researches on certain China-based, U.S.-listed companies, which researches claimed to have uncovered wrongdoings and fraud committed by these companies on the basis of (i) the disparities found between the listed companies' reported results and their PRC entities' financial reports filed with industry and commerce administration authorities, and (ii) information on material changes of the PRC entities, such as transfers of equity interests of significant PRC subsidiaries, that were filed with the industry and commerce administration authorities but not properly disclosed by such listed companies as required under the U.S. securities law and the SEC's disclosure requirements. The significant disparities found between (i) certain China-based, U.S.-listed companies' reported results and other disclosure and (ii) their PRC entities' financial reports and other records filed with industry and commerce administration authorities were also reported to have formed the basis of several class actions against such listed companies in the U.S.

It was reported that, since the first half of 2012, local industry and commerce administration authorities in a number of cities had started strictly implementing the above restrictions and had significantly curtailed public access to corporate records and filings. There have also been reports that only the limited scope of basic corporate records and filings are still accessible by the public, and much of the previously publicly accessible information, such as financial reports and changes to equity interests, now can only be accessed by the parties specified in, and in strict accordance with the restrictions under, the various regional regulations. Such reported limitation on the public access to corporate records and filings and the resulting concerns over the loss of, or limit in, an otherwise available source of information to verify and evaluate the soundness of China-based U.S.-listed companies' business operations in China may have a significant adverse effect on the overall investor confidence in China-based, U.S.-listed companies' reported results or other disclosures, including those of our company, and may cause the trading price of our ADSs to decline.

Risks Relating to Our ADSs

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. For example, if one or more of the industry analysts or ratings agencies who cover us downgrades us or our ADSs, or publishes unfavorable research about us, the price of our ADSs may decline. If one or more of these analysts or agencies cease to cover our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our ADSs or trading volume to decline. In addition, the performance and fluctuation of the market prices of other China-based, US-listed education companies may affect the volatility in the price of and trading volumes for our ADSs. In recent years, a number of PRC 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 following their initial public offerings. The trading performances of these PRC companies' securities at the time of or after their offerings may affect the overall investor sentiment towards PRC 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 due to different reasons, earnings and cash flow, announcements of new investments, cooperation arrangements, acquisitions, cessation of business lines or legal dispute, declaration of dividends 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 again. 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 lawsuit, 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.

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

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our future ability to raise capital through offerings of our ADSs. As of September 30, 2014, there were 142,752,873 ordinary shares outstanding. All of our ADSs are freely tradable without restriction or further registration under the Securities Act unless held by our "affiliates" as that term is defined in Rule 144 under the Securities Act. Subject to the applicable restrictions and limitations under Rule 144 of the Securities Act, all of our shares outstanding are eligible for sale in the public market. In addition, as of September 30, 2014, there were 612,200 outstanding options to purchase ordinary shares, out of which 524,824 outstanding options have vested under their current terms. 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 ADS could decline.

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 second amended and restated memorandum of association 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;
- provisions that authorize our board of directors, without action by our shareholders, to issue preferred shares and to issue additional ordinary shares, including ordinary shares represented by ADSs; and
- provisions that provide for a staggered board, whereby our board will be divided into three classes of directors, with directors in each class serving staggered three-year terms. With a staggered board, at least two annual shareholders' meetings, instead of one, would generally be required to effect a change in a majority of the board. A staggered board tends to discourage proxy contests for the election of directors and purchases of a substantial block of shares because a staggered board operates to prevent a third party from obtaining control of our board in a relatively short period of time. See "Item 6.C. Directors, Senior Management and Employees — Board Practices."

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

The voting rights of holders of ADSs must be exercised in accordance with the terms of the deposit agreement, 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 ordinary shares only in accordance with the provisions of the deposit agreement. 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 ordinary 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 ordinary shares in accordance with these instructions. You may not receive sufficient notice of a shareholders' meeting for you to withdraw your ordinary shares and cast your vote with respect to any proposed resolution, as a holder of our ordinary shares. In addition, the depositary and its agents may not be able to send materials relating to the meeting and voting instruction forms to you, or to carry out your voting instructions, in a timely manner. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. The additional time required for the depositary to receive from us and distribute to you meeting notices and materials, and for you to give voting instructions to the depositary with respect to the underlying ordinary shares, will result in your having less time to consider meeting notices and materials than holders of ordinary shares who receive such notices and materials directly from us and who vote their ordinary shares directly. If you have given your voting instructions to the depositary and subsequently decide to change those instructions, you may not be able to do so in time for the depositary to vote in accordance with your revised instructions. The depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. In the event that voting on any resolution or matter is conducted on a show of hands basis in accordance with our second amended and restated memorandum of association and articles of association, the depositary will refrain from voting and the voting instructions (or the deemed voting instructions, as set out in the deposit agreement) received by the depositary from you will lapse. The depositary will have no obligation to demand voting on a poll basis with respect to any resolution and will have no liability to any holder of ADS for not having demanded voting on a poll basis. In addition, the depositary will, if so requested in writing by us, represent all the ordinary shares (whether or not voting instructions have been received in respect of such ordinary shares from you as of the record date) for the purpose of establishing quorum at a meeting of shareholders.

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

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders' meetings if you do not vote, do not timely vote, or voting instructions received fail to specify the manner in which the depositary is to vote ordinary shares underlying your ADSs unless we notify the depositary that:

- we do not wish to receive a discretionary proxy;
- we think there is substantial shareholder opposition to the particular question; or
- we think the subject of the particular question would have a material adverse impact on our shareholders.

The effect of this discretionary proxy is that, absent the situations described above, you cannot prevent our ordinary 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 ordinary shares are not subject to this discretionary proxy.

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

Depending upon the value of our ADSs or ordinary shares and the nature and composition of our assets and income over time, we could be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any taxable year. We will be classified as a PFIC in any taxable year if either (a) the average quarterly value of our gross assets that produce passive income or are held for the production of passive income is at least 50% of the average quarterly value of our total gross assets (the "asset test") or (b) 75% or more of our gross income for the taxable year is passive income.

Based on assumptions as to our projections of the value of our outstanding ADSs and ordinary shares and our expected use of the proceeds from the follow-on public offering and the other cash that we will hold and generate in the ordinary course of our business, we believe we were not a PFIC for the taxable year ended September 30, 2014. However, there can be no assurance that we will not be a PFIC in any future taxable year as PFIC status is tested each taxable year and will depend on the composition of our assets and income in such taxable year. 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 (the sum of the aggregate value of our outstanding equity) plus our liabilities. Therefore, a drop in the market price of our ADSs and ordinary shares 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 and cash equivalents.

We currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets, which could affect our PFIC status in future years.

If we are classified as a PFIC in any taxable year in which you hold our ADSs or ordinary shares, and you are a U.S. taxpayer, you would generally be subject to additional taxes and interest charges on certain “excess” distributions we make and on any gain recognized on the disposition or deemed disposition of your ADS or ordinary shares in a later year, even if we are not a PFIC in the year of disposition or distribution. Moreover, if we are classified as a PFIC in any taxable year in which you hold our ordinary shares, certain non-corporate U.S. shareholders would not be able to benefit from any preferential tax rate with respect to any dividend distribution received 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 U.S. tax consequences to you that would result from our classification as a PFIC, please see “Item 10.E. Additional Information — Taxation — United States Federal Income Taxation — Passive Foreign Investment Company.”

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.

You may not receive distributions on our ordinary 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 holders of our ADSs the cash dividends or other distributions it or the custodian for our ADSs receives on our ordinary shares or other deposited securities after deducting its fees and expenses. Holder of our ADSs will receive these distributions in proportion to the number of our ordinary shares such holder’s 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, ordinary shares, rights or anything else to holders of our ADSs. This means that holders of our ADSs may not receive the distributions we make on our ordinary shares or any value for them if it is unlawful or unreasonable from a regulatory perspective for us to make them available to such holders. These restrictions may have a material adverse effect on the value of our ADSs.

Holders of our ADSs may be subject to limitations on transfer of ADSs.

ADSs 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 are closed, or at any time if we or the depository thinks it is necessary or 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, holders of ADSs may have less protection of shareholder rights than they would under U.S. federal or state laws.

Our corporate affairs are governed by our second amended and restated memorandum of association and articles of association, the Cayman Islands Companies Law (as amended) 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 law 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, and Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

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 to effect service of process within the United States upon these persons. It may also be difficult 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, most of whom are residents of countries other than the United States and the substantial majority of whose assets are 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 PRC 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.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced our business in China in July 2000. We incorporated China Distance Education Holdings Limited, or CDEL Cayman, in the Cayman Islands in January 2008. CDEL Cayman became our ultimate holding company in March 2008 after a series of restructurings in connection with our initial public offering in August 2008.

For additional information on our organizational structure, see “Item 4.C. Information on the Company — Organizational Structure.”

We incurred capital expenditures of \$2.7 million, \$2.8 million and \$2.0 million in the fiscal years ended September 30, 2014, 2013 and 2012, respectively. The amount of capital expenditures in the fiscal year ended September 30, 2014 related primarily to our expenditures on property, plant and equipment, and software. These capital expenditures were funded from our operating cash flow. For additional information on our capital expenditures, see Item “5.B. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Capital Expenditures.”

Our ADSs are listed on the NYSE, under the symbol “DL.” On March 11, 2014, we completed a follow-on public offering of ADSs by us and certain selling shareholders. Through the follow-on public offering we issued and sold 1,500,000 ADSs and the selling shareholders sold an aggregate of 2,500,000 ADSs at the price of \$21.00 per ADS. The net proceeds received by us, after deducting underwriting discounts and commissions and listing expenses payable by us, amounted to approximately \$29.1 million. We did not receive any proceeds from the sale of the ADSs by the selling shareholders.

Our principal executive offices are located at 18th Floor, Xueyuan International Tower, 1 Zhichun Road, Haidian District, Beijing 100083, the People’s Republic of China. Our telephone number at this address is +86-10-8231-9999 and our fax number is +86-10-8233-7887. Our main website is www.cdeledu.com. The information contained on this website and our other websites is not part of this annual report. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

B. Business overview

Overview

Our mission is to be a life-long, comprehensive online education partner for professionals and other learners in China. In particular, we focus on helping professionals seeking to obtain and maintain professional licenses and to enhance their job skills through our professional development courses. We believe that we are the largest provider of online education in China primarily focusing on professional education, as measured by total number of course enrollments in 2014. As of September 30, 2014, our content library encompassed 245 course offerings, approximately 5,200 classes, and close to 21,000 hours of audio-video content across 13 subject areas.

Our online courses typically feature pre-recorded, high-definition audio-video lectures taught by experts within their respective fields. Lectures can be viewed either through streaming via the Internet or can be downloaded to various devices, including computers, tablets and smart phones. To enhance the learning experience, our online lectures are supplemented by our proprietary Learning Management System which tracks students' individual study progress, enables students to record course notes, and enables students to collect incorrectly answered questions for future review and provides other content, such as course outlines, exercise questions, mock exams, and Frequently Asked Questions and Answers. In addition, we provide comprehensive course-related support services that include online tutoring and 24/7 customer service via our call center.

Our websites also generate significant user traffic. As of September 30, 2014, we had 30 million cumulative registered users, and we believe our websites were among the most visited websites in China's education industry, as measured by 1.21 million total average daily unique visitors and 37.2 million average daily page views for our fiscal year ended September 30, 2014. As of September 30, 2014, we offered 54 downloadable and proprietary mobile applications and have had over 7.1 million downloads as of that date. We have a track record of successfully converting our user traffic into course enrollments and will continue to pursue opportunities to further monetize our user traffic and content library.

We focus our online professional education services in three main industries: accounting, healthcare and engineering & construction. In addition, we also offer other professional education courses, such as the national judicial examination, online test-preparation courses for self-taught learners pursuing higher education diplomas or degrees, test preparation courses for university students intending to take the nationwide graduate school entrance exam, and online language courses. We also offer third-party developed online courses through our Online Open Learning Platform, a proprietary education platform that allows people to share their educational content or deliver live courses online.

As of September 30, 2014, we operated 18 websites, including our main website www.cdeledu.com and 17 other websites, each dedicated to a specific industry, profession or discipline. Our online education courses accounted for 77.3%, 82.1% and 82.9% of our net revenues in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. In addition to traditional online courses, we also offer certain fee-based, mobile accounting and engineering & construction courses through an app available on Android and Apple iOS tablets and smart phones and began to offer fee-based, mobile courses for other disciplines, such as our healthcare and legal courses in the first quarter of fiscal 2015. Furthermore, we also sell books and reference materials, offer offline business start-up training courses and offline accounting and healthcare professional training, and provide courseware production services and platform production services for certain customers.

Our net revenues were \$52.1 million, \$71.4 million and \$97.2 million in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. We had net income of \$8.2 million, \$13.6 million and \$23.4 million in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. Our total course enrollments from continuing operations were 2,203,000, 2,700,000 and 3,238,000 for the fiscal years ended September 30, 2012, 2013 and 2014, respectively.

Our Online Education Services

We focus our online professional education services in three main industries: accounting, healthcare and engineering & construction. In addition, we offer other professional education courses, such as the national judicial examination, online test-preparation courses for self-taught learners pursuing higher education diplomas or degrees, test preparation courses for university students intending to take the nationwide graduate school entrance exam, and online language courses. The following table lists our key online course offerings as of September 30, 2014.

Discipline	Website	Contribution to Revenue (%)	Number of Course Offerings	Number of Classes
Accounting	www.chinaacc.com			
	www.ck100.com	51.5%	28	2,157
Healthcare	www.med66.com	17.6%	33	1,049
Construction Engineering	www.jianshe99.com	8.1%	35	569
Others		5.7%	149	1,414
Total		82.9%	245	5,189

We offer different types of classes for various subjects within each course and multiple courses for each discipline. Each course typically represents one examination, professional development or continuing education requirement. To access our classes, course participants must first log into their online registered accounts and enroll in our courses. They are typically able to choose among several different lecturers within each class. After selecting a lecturer, course participants can view the video along with the lecture script and click on hyperlinks for other useful functions during the lecture. For example, course participants can receive tutoring support by posting a question on the question and answer board, may pause the video to take notes, practice mock exam questions, or evaluate lecturers' performance, and access the bulletin board or other helpful information. These functions are part of our proprietary Learning Management System, which monitors our course participants' individual progress, records course notes, and collects incorrectly answered questions for future review and provides other content, such as course outlines, mock exams, and Frequently Asked Questions and Answers. For more details on our course-related support and services, see “— Our Services to Students and Teachers — Course-Related Support and Services.”

In addition to traditional online courses, we also offer certain fee-based, mobile accounting and engineering & construction courses through an app on Android and Apple iOS tablets and smart phones and began to offer fee-based, mobile courses for other disciplines, such as our healthcare and legal courses in the first quarter of fiscal 2015. Our mobile courses employ a course format more suitable for smaller screens and shorter studying times. For example, our mobile accounting courses are organized by key knowledge points, each illustrated using a 10-minute lecture segment, and total video lengths are much shorter than our traditional online courses. In addition, our proprietary mobile learning system employs an intelligent exercise question databank. For certain classes, if a student answers any question incorrectly, our intelligent exercise question databank will automatically push similar questions to the course participant until he or she masters the relevant knowledge point.

Accounting Courses

PRC laws and regulations require persons engaging in accounting and related activities to obtain various qualifications and licenses and to meet continuing education requirements. Qualifications and licenses are primarily obtained by passing exams administered by various agencies, and continuing education requirements can be fulfilled by taking courses covering certain subjects. We offer a comprehensive suite of online test preparation and continuing education courses for accounting professionals in China.

- *Accounting Professional Qualification Examination.* Persons who perform PRC accounting work in any organization in China are required to hold a certificate of accounting professional and to register with the relevant regional bureaus of the Ministry of Finance, or the MOF. This is the basic qualification requirement for accounting professionals in China.
- *Elementary, Intermediate and Advanced Level Accounting Professional Qualification Examinations.* The skill level and technical competence of accounting professionals in China are further measured by achieving certification at various levels within the profession. These levels are determined by the ability of accounting professionals to pass elementary, intermediate and advanced level accounting professional qualification examinations. Candidates who pass the exam are issued an accounting qualification certificate for their respective level from the MOF and the Ministry of Human Resources and Social Security, or the MOHRSS, jointly.
- *CPA Qualification Examination.* Persons who act as certified public accountants in China are required to pass China's CPA Qualification Examination. This exam is open to all candidates who hold at least an associate diploma or an intermediate level of accounting-related professional qualification certificate.

- *Continuing Education for Accounting Personnel.* PRC regulations require persons holding Certificates of Accounting Professional and Certificates of Accounting Specialty and Technical Qualifications to undergo at least 24 hours of continuing education training each year. Failure to comply with these continuing education requirements can result in the suspension or cancellation of such certificate holders' certifications.
- *Registered Tax Agent Qualification Examination.* Prior to August 2014, only registered tax agents may carry out tax agency services, issue tax audit reports and handle tax procedures such as applications for tax registration with relevant authorities on behalf of business entities. Persons wishing to qualify as registered tax agents must pass the Registered Tax Agent Qualification Examination. In August 2014, the PRC State Council cancelled the Registered Tax Agent Qualification.
- *Certified Asset Appraiser Examination.* Prior to August 2014, only certified asset appraisers may carry out valuations of state-owned and non-state-owned assets and provide consultancy and other valuation-related services. Persons wishing to qualify as certified asset appraisers must pass the Certified Asset Appraiser Examination. In August 2014, the PRC State Council promulgated a decision, pursuant to which the Certified Asset Appraiser Qualification was replaced with a qualification evaluation system administered by the State Council.

Healthcare Courses

We provide preparatory courses for a wide variety of healthcare professional exams. Currently, we offer courses mainly relating to four major nationwide healthcare exams:

- *National Practising Medical Doctor Qualification Examination.* This is administered by National Health and Family Planning Commission, or the NHFPC, and is the basic qualification requirement for doctors in China.
- *Healthcare Professional Technical Qualification Examination.* This is jointly administered by the NHFPC and the MOHRSS. A person is eligible to apply for the Healthcare Professional Technical Qualification and work as a medical technician in China if he or she passes the qualification examination for all four subjects within two years.
- *National Pharmacist Qualification Examination.* This is jointly administered by the MOHRSS and the China Food and Drug Administration. Licensed pharmacists in China are required to pass the National Pharmacist Qualification Examination, obtain the Licensed Pharmacist Qualification Certificate and register with the relevant authorities. Only those who pass the examination for all the subjects in two consecutive years will be deemed to have passed the examination.
- *National Nursing Qualification Examination.* This is administered by the NHFPC, and is the basic qualification requirement for nurses in China.

Engineering & Construction Courses

We offer test preparation courses for engineering & construction professionals in China. Currently, we offer courses mainly relating to the following exams: Associate Constructor and Constructor Qualification Examinations, Construction Pricing Engineer Qualification Examination, Construction Supervisor Qualification Examination and Real Estate Appraiser Qualification Examination jointly administered by the Ministry of Housing and Urban-Rural Development and MOHRSS; Certified Safety Engineer Qualification Examination jointly administered by the State Administration of Work Safety and MOHRSS; and Consulting Engineer Qualification Examination jointly administered by the National Development and Reform Commission and MOHRSS.

We also offer online continuing education courses to engineering & construction professionals, including architects, cost estimators, equipment supervisors, real estate appraisers, realtor associates, urban planners and construction contract bidding agents, to help them meet government requirements and maintain their qualifications.

Other Courses

We provide other professional education courses for the national judicial examination, English proficiency test for professionals, computer application skills, and other occupational certifications or skills. Each of these offerings follows a similar course production and online delivery model. We plan to continue to leverage our core online course production and delivery expertise to produce and deliver new courses for additional professions and industries.

We also provide test preparation courses for self-taught learners pursuing higher education diplomas or degrees in various disciplines via our www.zikao365.com website. They can obtain government accredited diplomas or degrees by completing their self-study and passing the Higher Education Examination for Self-Taught Learners administered by the MOE. We have also obtained exclusive rights to offer study process monitoring programs that allow self-taught learners to earn up to 30% of the credits they need to obtain post-secondary self-taught education degree in certain provinces and cities in China.

We offer test preparation courses on our *www.cnedu.cn* website for university students intending to take the nationwide graduate school entrance exam administered by the MOE.

We also operate websites focused on the secondary education market and language courses. These courses are designed to provide an online resource for secondary school course participants to improve their chances of attending a better university.

Open Learning Platform

We also operate an Open Learning Platform, our proprietary education platform that allows people to share their educational content primarily in professional development areas. While educational content such as lecture videos or PowerPoint illustrations can be freely uploaded and downloaded, the core of our Open Learning Platform focuses on audio-video lecture courses and practical job skills training. After passing our rigorous quality control standards, experts and scholars of various fields can either record their own lectures and post them on our Open Learning Platform website, *www.chinatel.com*, or deliver real-time audio-video courses supported by real-time online notes and illustrations. We offer coaching services to these lecturers and employ a user evaluation system to ensure that these courses meet our quality and effectiveness standards. We employ primarily a revenue-sharing scheme with Open Learning Platform contributors. Since the introduction of the Open Learning Platform in October 2012, we have amassed over 600,000 online courses as of September 30, 2014, which span various professional development areas, including accounting, healthcare, and engineering & construction. These courses include both live and pre-recorded courses, third-party developed courses as well as our own proprietary courses.

Course Formats

We offer regular, premium and elite classes mainly comprised of the following five types:

- *Foundation Classes:* Our foundation classes contain detailed materials and instructions to provide course participants with a broad and comprehensive knowledge of a specific subject matter.
- *Intensified Focus Classes:* Our intensified focus classes are designed to provide more intensive instruction, at a more advanced pace, on the key topics of a specific subject matter to course participants who already have a basic knowledge of the subject matter.
- *Exam Questions Analysis Classes:* Our exam questions analysis classes contain materials and instructions tailored for exam preparation.
- *Crash-Course Classes:* Our crash-course classes are designed to provide a quick overview of the key topics on a specific subject matter in the final weeks prior to an exam.
- *Exam Simulation System:* Our exam simulation system, which covers certain of our courses, offers a wealth of mock test questions based on real tests, closely conforms to the syllabus and test requirements of such courses, and covers various key examination points. The system sets a time limit for handing in test “papers”, automatically reviews and grades “papers”, and pools wrong answers for repeated exercises, thereby honing the examinees’ test-taking skills.

We offer elite classes for some of our most popular test-preparation courses, such as courses for the Elementary Level and Intermediate Level Accounting Professional Qualification Examination, the CPA Qualification Examination and other professional exams in the healthcare, engineering & construction and other industries. With our elite classes, course participants pay substantially higher course fees for better support services and substantially more interactive course participation. For example, after a key point is presented during a lecture, the lecture automatically pauses and a quiz relating to the point will pop up on the screen. If the course participant answers incorrectly, he or she can press replay to listen to the lecture again or proceed to the next one. This pop-up quiz feature ensures that course participants do not miss any of the important knowledge points that may be tested on exams. Moreover, our most experienced tutors work closely with elite class participants, and questions are responded to on a priority and expedited basis. In addition, a regular study monitoring report is generated by our support staff for each elite class participant to ensure that he or she is progressing satisfactorily in the course. After completing an elite class, if a participant fails to pass the relevant exam and certain pre-agreed conditions are met, the course participant may elect to receive a cash refund of the course fees paid or full credit towards future courses provided by us.

We also offer premium classes that cover the same courses as elite classes and provide similar levels of support services. Premium class participants, however, do not enjoy refund privileges. Instead, in general, if a participant fails to pass the course examination and certain pre-agreed conditions are met, the course participant can retake the same premium course by paying discounted course fees for the following year or years.

We also provide course participants with a seven-day trial period for some of our foundation classes.

Course Fees and Payment Methods

We charge course fees on a per-class basis. Course participants may choose to take different classes offered under each subject according to their individual needs. Special package pricing is offered if a participant chooses to take more than one subject under a course. To promote the use of our online courses, we also offer course discounts to eligible course participants who are frequent users of our services. The discounts offered typically range from 10% to 30% off the stated course fees.

Payment for the course fees can be made through any one of the following methods:

- online and mobile payment on computers, tablets or smart phones using credit or debit cards via third-party payment networks;
- purchase of prepaid study cards;
- remittance through a bank or post office; or
- cash payment made at our offices.

Online and mobile payment using credit or debit cards via third-party payment networks is the most frequently used payment method. Pre-paid study cards is the second most popular payment option and are sold through regional sales agents at points of sale throughout China. The pre-paid study cards come with face values ranging from RMB10 (\$1.6) to RMB500 (\$81.5) and can be used to register for a single course or multiple courses. These pre-paid study cards typically have a two-year expiration date. Once course participants activate the pre-paid study cards, the face values of the cards are added to their registered accounts and are no longer subject to expiration.

Other Products and Services

Books and Reference Materials

We primarily sell proprietary books and reference materials related to our courses such as the Elementary Level and Intermediate Level Accounting Professional Qualification Examination, the CPA Qualification Examination, the National Practicing Medical Doctor Qualification Examination, Associate Constructor and Constructor Qualification Examinations and Construction Pricing Engineer Qualification Examination. To promote our online courses, we sometimes sell books and reference materials together with study cards, which allow course participants to take a certain number of online courses for no additional charge. Our proprietary books and reference materials are authored by lecturers teaching the relevant online courses. Pursuant to agreements with the lecturers, we own the copyright to these books and reference materials in almost all cases. We engage third-party publishers to publish our books and reference materials and distribute them through third-party bookstores and distributors across China, as well as through our online bookstore and our offices in Beijing.

Business Start-up Training Courses

We offer business start-up training to university students, job seekers and individuals who are interested in learning how to establish new businesses. Such practical training is encouraged by the PRC government to promote employment opportunities in the country. For these courses, we prepare training materials in accordance with local government requirements in various provinces and cities. We do not charge business start-up training course participants fees. Instead, we receive subsidies from the relevant government authorities, which are conditioned on our ability to meet government stipulated conditions under the subsidy policies. When determining our qualification for the subsidy, the government authorities consider the passage rate of our course participants' business proposals as evaluated by such authorities, as well as the business start-up rate and employment rate of our course participants.

Others

We provide offline accounting and healthcare professional training to accounting firms and the general public. We also provide courseware production service and online platform development service to certain customers on a contractual basis.

We are pursuing opportunities to monetize our extensive content library and have begun to leverage our vast databank to integrate online and offline courses. For example, our "tax school" program offers tax classes for tax and accounting professionals and provide them with subscription-based access to our vast databank of tax, finance, and legal course materials and information.

From time to time, we also enter into strategic alliances with other third-party education companies to enhance our product and service offerings. For example, we are the exclusive distributor of certain products developed by Becker Professional Education, or Becker, a subsidiary of DeVry Inc. and a global leader in professional education, such as Becker's CPA Review, CPA Final Review and Association of Chartered Certified Accountants ("ACCA") Examination Review, for both online and offline courses in China. We have not generated material revenue from these strategic alliances yet.

Our Educational Content and Delivery

Course Creation

We have an extensive content library with 245 course offerings, approximately 5,200 classes, and close to 21,000 hours of audio-video content as of September 30, 2014. We place great emphasis on the quality of our courses and learning materials, both in terms of content and production quality to enhance course participants' learning experience. Prior to developing a new course, we gather market intelligence to ensure that we are developing relevant and up-to-date courses. Once we gather enough market intelligence, we typically develop and produce most of our courses in-house by working with our lecturers with extensive industry and academic backgrounds. To develop high-quality courses, we employ a variety of measures including substantive content review and content approval at each stage of the course development process by our experienced personnel. We regularly update our existing courses, typically every year, to stay abreast of the latest examination trends and professional requirements. Although our lecturers participate in the development of the course materials, in almost all cases, we own all copyrights to our courses and course materials pursuant to contracts with our online lecturers.

We believe superior delivery of our courses and learning materials is important to attracting and retaining course participants. We record, digitize and edit most of the high-definition audio-video lectures used in our online courses on our own premises. We maintain 24 fully-equipped recording rooms to ensure the high-quality of the high-definition audio-video content and any graphics used in the lectures. Our editing department uses advanced high-definition audio-video editing software and equipment to eliminate breaks, pauses and unwanted noise from each lecture tape to further enhance the viewing and listening experience. All lectures are properly formatted and compressed to facilitate smooth transmission via streaming media and other Internet-based technologies. Our customer service team regularly seeks feedback on the quality of our courses from our course participants.

Our Lecturers

The vast majority of our lecturers are academics from renowned higher education institutions in China and experienced practitioners within their respective fields. They work with us to prepare the course content and lectures, while also serving as faculty members of various colleges and universities across China or working in their respective fields. The majority of them are obligated to conduct online lectures exclusively for us. They are not our employees, however, and typically work for us on a part-time basis. A small portion of our lecturers are our tutors who remain full-time employees after becoming our lecturers. We have received positive feedback on these in-house lecturers from course participants and plan to continue to increase their numbers across all our course offerings in the future. The number of online lecturers actively producing online courses for us was 376, 385 and 341 in the fiscal years ended September 30, 2012, 2013 and 2014, respectively.

To ensure the quality of our lecturers, we have established a stringent selection and retention criteria and implemented ongoing evaluation procedures. We seek to engage lecturers who have a strong command of their respective disciplines and good communication skills. In particular, we seek lecturers capable of, and preferably experienced in, delivering effective instruction through the audio-video format. Our internal quality control personnel regularly monitor the teaching quality of each lecturer. We also collect feedback on the online lecturers from our course participants on a regular basis through multiple channels, including online teacher evaluations system, customer service calls, our online course comment book, and our online question and answer board. Based on this feedback, we provide ongoing training for lecturers and help them improve their online presentation skills.

Our lecturers are attracted to our online platform where their lectures can be viewed by tens of thousands of course participants across China, which can help to further expand and enhance their national reputation in their respective fields. We pay our lecturers fees in one of two ways: the first and most common way is to pay them based on the number of hours of lectures they deliver, and the second way is to enter into a course fee sharing arrangement with them, which is used primarily for some of our newer courses.

Our Services to Students

Course-Related Support and Services

We employ a service-oriented approach and devote significant resources to developing course-related support and services for our course participants. We provide tutorial sessions, which allow course participants to interact with their lecturers and other course participants using their personal computers. To enhance the learning experience, we also maintain a well-trained pool of tutors knowledgeable about specific courses and exams to answer questions from course participants and to host tutorial sessions. For questions submitted by course participants, they are able to provide timely and accurate responses, usually within 24 hours after a question is submitted, through our online question and answer board. To ensure the accuracy of our responses, a senior tutor reviews all of the responses for our most popular courses before they are delivered to our course participants. We had 292 tutors as of September 30, 2014, of which 56 are part-time employees. To ensure that our tutors are suitably qualified to support our courses, we have established a stringent selection criteria and make hiring decisions based on academic qualifications, tutorial experience and knowledge of various exams and subject matters. We require our tutors to possess, at a minimum, a college degree in the relevant academic area or a certification in the relevant industry, as well as familiarity with the actual exam and related subject matter. We believe that our high-quality tutorial and learning support service is critical to enhancing the learning experience of our course participants.

Community-oriented Services on Our Websites

In addition to using our websites to access our courses, course participants and visitors to our websites are also able to access a wide variety of information and to exchange ideas on topics relating to the various professions and disciplines for which we offer services. We offer free, comprehensive and timely information about exam times and locations, test preparation guidance, regulations and policies relevant to each industry, career planning and industry trends. We also offer free e-mail accounts to course participants and provide an electronic bulletin board service, which can be accessed on computers or tablets and smart phones through our mobile apps. Through these community-oriented features, we create virtual communities for course participants and visitors which, we believe, fosters brand awareness and customer loyalty. In addition, they also provide us with a valuable means of tracking feedback about our courses, lecturers and services, allowing us to make adjustments and to react quickly to concerns and complaints of our course participants.

General Customer Service

Our customer service representatives counsel potential and existing course participants on our courses and services, assist in course enrollment, process fee payments, conduct regular telephone customer surveys and provide other support services. They are available online and by email or phone, 24 hours a day, seven days a week. Our dedicated customer service team composed of 325 individuals as of September 30, 2014. We recruit our customer service personnel from candidates who have good communication skills and high customer service ethics and provide on-the-job training for our new recruits. We conduct ongoing evaluations of our customer service staff and provide periodic training to improve their skill set.

Online Platform and Technology Infrastructure

Maintaining a reliable, scalable and secure technology infrastructure is crucial to our ability to support the online courses and services we provide to our course participants. We manage our online course production and delivery system using a combination of commercially available software, hardware and proprietary technology. Over the years, we have established a comprehensive and powerful online platform that enables tens of thousands of course participants to simultaneously attend our courses and participate in other programs and activities online. Additionally, our proprietary Learning Management System monitors all course participants' individual progress, records course notes, and collects incorrectly answered questions for future review and provides other content, such as course outlines, mock exams, and Frequently Asked Questions and Answers.

We have also extended our online courses from regular Internet-enabled desktop or laptop computers to Apple iOS, Android, and Windows tablets and smart phones. Once enrolled, participants can watch videos, do exercise questions and obtain tutoring support via all these platforms. We develop and offer mobile apps to offer more content and convenience for our course participants as well as to promote our brand to the general public and to increase traffic to our websites. Our apps are available on Apple iOS, Android, and Windows tablets and smart phones and fall into four main categories: classes, tools, exam databank, and reference reading. Our popular apps include: accounting BBS, civil service exam databank, "accounting question of the day," healthcare mobile classroom, and Women's Secret. As of September 30, 2014, we had 54 different apps with over 7.1 million downloads. Our fee-based, mobile accounting and engineering & construction courses are also available through our apps available on Android tablets and smart phones. Such course participants are provided with the pop-up quiz feature of our elite and premium classes, which, for certain classes, will automatically push mock exam questions to the course participant until he or she provides the correct answer and masters the relevant knowledge point. We have also built a robust online community platform that helps foster a strong sense of community among our course participants and build brand loyalty.

We maintain multiple servers, which are separately located in multiple Internet data centers, or IDCs, in several cities across China, and proprietary content delivery network system to mitigate any downtime arising from individual IDC or server failure. To increase reliability, availability and serviceability, we have created an environment in which each server can function independently. We regularly back up our databases. Using cluster technology, our system can identify errors and isolate failed servers automatically so that our course participants can access our services at any time. If a malfunction arises in a server or at a point of presence, our load balancing technology can automatically direct visitors to access the same contents through another server or another point of presence. Our network administration department regularly monitors the performance of our websites and technology infrastructure to enable us to respond quickly to potential problems. As of September 30, 2014, we have not experienced any material disruption to our business or websites.

We utilize streaming media technology as the primary delivery method for our online lectures because it allows the end-user to view the file as it is being delivered. To accommodate different levels of Internet access and bandwidth available to course participants across China, we provide our course lectures in a number of formats. Course participants may download copies of the lectures onto their own personal computers, tablet or smart phone and access them later offline. We utilize digital rights management, or DRM, technology to restrict the transfer and viewing of such downloadable media files.

Sales and Marketing

We rely on a combination of direct sales and referrals, regional and online sales agents, as well as other sales and marketing activities to market our services and products.

Direct Sales and Referrals

Many of our course participants learn about our services and courses through word-of-mouth referrals. As a result, a significant portion of our sales are made through our customer service representatives who were directly contacted by the course participant. We believe that combining the customer service and sales function in one department contributes both to the quality of our customer service and the effectiveness of our direct- and cross-selling efforts. Based on their knowledge of our courses and feedback from course participants, our customer service representatives are able to recommend the most suitable courses for new course participants and to cross-sell new or additional courses, learning tools and materials, as appropriate.

Regional and Online Sales Agents

We use regional sales agents to resell our pre-paid study cards bought from us. Generally, we provide various discounts to our regional sales agents based on the volume purchased and the method of payment. These agents also normally assist with our promotional activities in their respective regions and provide market feedback, which helps us in planning our marketing strategy and sales activities. As of September 30, 2014, we had approximately 1,800 active regional sales agents throughout China. When selecting regional sales agents, we consider various criteria, such as whether the candidates have relevant experience and whether they are familiar with or have established relationships with local professionals, professional associations and organizations related to our target industries and professions. Our regional sales agents are comprised mostly of stores and other points of sale that sell books, learning materials and other supplies to our target professionals. Most of our regional sales agents are appointed on an exclusive basis.

We also use online sales agents, which typically are Internet companies and website operators in China that market our course offerings and other services on their websites. We pay our online agents marketing and promotional fees for each new course participant registered through their website. As of September 30, 2014, we had approximately 920 active online agents.

Other Advertising and Marketing Efforts

We place advertisements mainly on high-traffic search engines and sometimes on high-traffic Chinese Internet portals and in newspapers, magazines, and journals in many cities across China. We also promote our courses, services and products at examination registration centers and education and career fairs, including distributing complimentary study cards together with reference books and study materials that we sell at these places. We have also established a number of scholarships totaling over RMB0.5 million (\$78,000) in the fiscal year ended September 30, 2014 and granted awards to course participants who have achieved outstanding performances in various exams.

Competition

We face competition from providers of traditional offline education and test preparation services in China, and expect to face increasing competition from existing competitors and new market entrants in the online education and test preparation market.

The provision of online professional education and test preparation courses is a relatively new concept in China. Although it is being increasingly perceived as an acceptable means of receiving training and instruction, traditional classroom instruction is still generally perceived as the more accepted method. We therefore compete with traditional offline educational institutions and training centers in the various areas for which we offer courses.

In addition, due to low barriers to entry for Internet-based businesses, we expect to face increasing competition from existing domestic competitors and new entrants to the online education market. We may face increased competition from international competitors that cooperate with local businesses to provide services based on the foreign partners' technology and experience developed in their home markets. Currently, our online competitors include general information websites that have branches providing online training courses, traditional schools that provide online offerings and newly established online training and test preparation businesses.

We believe that the key competitive factors in our industry include the professional competence of lecturers and tutors, market recognition and brand name, price, quality, customer service and the performance of the technological platform. Some of our present and future competitors may have longer operating histories, larger teams of professional staff and greater financial, technical, marketing and other resources. For a discussion of risks relating to competition, see "Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — We may lose market share and our profitability may be materially and adversely affected, if we fail to compete effectively with our present and future competitors or to adjust effectively to changing market conditions and trends."

Intellectual Property

Our trademarks, copyrights, domain names, trade secrets and other intellectual property rights distinguish our products and services from those of our competitors and contribute to our ability to compete in our target markets. We rely on a combination of copyright and trademark law, trade secret protection and confidentiality agreements with our employees, lecturers, business partners and others to protect our intellectual property rights. In addition, we require our employees to enter into agreements with us under which they acknowledge that all inventions, trade secrets, works of authorship, developments and other processes made by them during their employment are our property and that they must assign the same to us if we so require. We also maintain a dedicated team that regularly monitors any infringement or misappropriation of our intellectual property rights.

We have registered 63 software copyrights with the National Copyright Administration of the PRC for our proprietary online course delivery platform, customer service system, DRM encryption system, streaming media load balancing system, online course creation management system and certain other aspects of our online education platform, and 13 additional software copyrights applications are currently pending. We have also registered 420 trademarks with the China Trademark Office and an additional 187 trademark applications are currently pending. We cannot assure you, however, that all of our trademark applications will be successful.

As of September 30, 2014, we had registered 273 domain names relating to our business with the Internet Corporation for Assigned Names Numbers and China Internet Network Information Center, including all 18 of our operating websites. Our intellectual property is subject to risks of theft and other unauthorized use, and our ability to protect our intellectual property from unauthorized use is limited. In addition, we may be subject to claims that we have infringed the intellectual property rights of others. See "Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights or defend against third party allegations of infringement may be costly and ineffective."

Employees

We had 859, 1,118 and 1,309 full-time employees as of September 30, 2012, 2013 and 2014, respectively. In addition to the above full-time employees, we had 66 part-time employees as of September 30, 2014.

Seasonality

We have experienced seasonality and expect to continue to experience seasonality in revenues primarily due to seasonal changes in course enrollment and the timing of various exams. For more details, see "Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility in and adversely affect the price of our ADSs." Our revenue recognition policy can compound the effect of any seasonality or change in the timing of various exams. See "Item 5.A. Operating and Financial Review and Prospects — Operating Results — Critical Accounting Policies — Revenue recognition."

Regulations

The provision of our online and offline education services is subject to PRC laws and regulations relating to the telecommunications industry and the education services industry. This section sets forth a summary of the principal laws and regulations 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.

Restrictions on Telecommunications Industry

The telecommunications industry, including the Internet sector, is highly regulated by the PRC government. Laws and regulations issued or implemented by the State Council, MIIT, and other relevant government authorities cover virtually every aspect of telecommunications network operations, including entry into the telecommunications industry, the scope of permissible business activities, interconnection and transmission line arrangements, tariff policy and foreign investment. The principal regulations governing the telecommunications industry and the Internet include:

- The Telecommunications Regulations (2000);
- The Administrative Measures for Telecommunications Business Operating Licenses (2009); and
- The Internet Information Services Administrative Measures (2000).

These regulations categorize all telecommunications businesses in China as either “basic telecommunications businesses” or “value-added telecommunications businesses.”

In addition to the regulations promulgated by the PRC 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

The State Council promulgated the Administrative Rules on Foreign-Invested Telecommunications Enterprises in December 2001, as amended on September 10, 2008, or the FITE Rules. The FITE Rules 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 FITE Rules, 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, for a foreign investor to acquire any equity interest in a value-added telecommunications 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 telecommunications business overseas. Moreover, foreign investors that meet these requirements must obtain approvals from MIIT and the Ministry of Commerce or their authorized local counterparts, which retain considerable discretion in granting approvals.

On July 13, 2006, MIIT publicly released the Notice on Strengthening the Administration of Foreign Investment in Operating Value Added Telecommunications Business, or the MIIT Notice, which reiterates certain provisions under the FITE Rules. According to the MIIT Notice, if any foreign investor intends to invest in a Chinese telecommunications business, a foreign-invested telecommunications enterprise shall be established and such enterprise shall apply for the relevant telecommunications business licenses. The MIIT Notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to the MIIT Notice, either the holder of a value-added telecommunication service license or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The MIIT Notice also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered its license. In order to comply with the MIIT Notice, we have transferred all domain names and trademarks that are used primarily in connection with our online business activities from Champion Technology to Beijing Champion.

On January 6, 2014, MIIT and the People's Government of Shanghai jointly promulgated the Opinions on Further Opening up Value-added Telecommunication Business in China (Shanghai) Pilot Free Trade Zone, which allows foreign investors to own more than 50% of the equity interests in companies conducting certain value-added telecommunication businesses, such as call center business, domestic multi-party communications service business, internet connection service business (provision of internet connection service to online users), online data processing and transaction processing business (foreign investors shall not own more than 55% of the equity interests). However, these opinions only apply to companies established in China (Shanghai) Pilot Free Trade Zone and therefore do not apply to us.

As a result of current PRC laws and regulations that impose substantial restrictions on foreign investment in Internet businesses in China, we conduct our online education and test preparation business in China through a series of contractual arrangements entered into among our two PRC subsidiaries, Champion Technology and Champion Education Technology, and our affiliated PRC entity, Beijing Champion, which is a domestic PRC company incorporated in the PRC and owned by Mr. Zhengdong Zhu, our chairman and chief executive officer, and Ms. Baohong Yin, our co-founder and deputy chairman, both of whom are PRC citizens. These contractual arrangements enable us to exercise effective control over and to receive a substantial portion of the economic benefits from Beijing Champion. Beijing Champion has obtained the licenses and approvals that are required to operate our online education and test preparation business. We do not have any direct ownership interests or direct voting rights in Beijing Champion.

Our contractual arrangements with Beijing Champion include a technical support and consultancy services agreement pursuant to which Champion Technology is entitled to receive service fees from Beijing Champion. In addition, Champion Technology has entered into equity pledge agreements (as amended and restated) with each of the shareholders of Beijing Champion, pursuant to which each shareholder has pledged all of his or her interest in Beijing Champion to Champion Technology as security for the performance of Beijing Champion's obligations under the technical support and consultancy services agreement. Pursuant to an exclusive purchase rights agreement with Beijing Champion and its shareholders, CDEL Hong Kong or any third-party designated by CDEL Hong Kong has the right to acquire, in whole or in part, the equity interest of Beijing Champion, when permitted by applicable PRC laws and regulations. There are also certain other agreements and letters of undertaking under the contractual arrangements. For a detailed discussion of these contractual arrangements, see "Item 4.C. Information on the Company — Organizational Structure."

We believe, based on the opinion of our PRC legal counsel, Jingtian & Gongcheng, that:

- the ownership structures of Beijing Champion and its subsidiaries and our wholly owned subsidiaries in China are in compliance with existing published PRC laws and regulations; and
- our contractual arrangements among our wholly owned subsidiaries in China and Beijing Champion and its shareholders, are valid and binding, will not result in any violation of published PRC laws or regulations currently in effect, and are enforceable in accordance with their terms and conditions.

However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the laws and regulations governing the enforcement and performance of our contractual arrangements in the event of imposition of statutory liens, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that the PRC regulatory authorities will not ultimately take a contrary view. If the PRC government finds that the agreements that establish the structure of our operations in China do not comply with PRC government restrictions on foreign investment in our industry, we could be subject to severe penalties. In addition, for a detailed description of the risks associated with our corporate structure and these contractual arrangements that support our corporate structure, see "Item 3.D. Key Information — Risk Factors — Risks Relating to Our Corporate Structure and Restrictions on Our Industry."

Regulations on Value-added Telecommunications Services and Internet Content

Under PRC laws and 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. These regulations also provide that if the Internet content services are provided in more than one province, then an inter-provincial ICP license must be obtained from MIIT, while if only one province is involved, the license can be obtained from the relevant provincial telecommunications administration. In addition, the regulations further provide that operators involved in Internet content provision that operate in sensitive and strategic sectors, including news, publishing and education, must obtain additional approvals from the relevant authorities in charge of those sectors.

Each of Beijing Champion, Caikaowang, Champion Wangge and Zhengbao Yucai holds an ICP license issued by the Beijing Telecommunications Administration Bureau, a local branch of the MIIT, which allows it to provide Internet content distribution services through 17 websites owned by Beijing Champion and its subsidiaries. The ICP license held by Beijing Champion is valid through August 13, 2018, the ICP license held by Caikaowang is valid through August 13, 2018, the ICP license held by Champion Wangge is valid through December 31, 2019, and the ICP license held by Zhengbao Yucai is valid through May 6, 2015. These licenses and approvals are essential to the operation of our online professional education and test preparation services business.

Regulation of Internet Content

The PRC government has promulgated measures relating to Internet content through a number of ministries and agencies, including MIIT, the Ministry of Culture, the Press Office of the State Council 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 PRC government may revoke its ICP license and shut down its websites. Under these measures, ICP license holders are required to monitor their websites, including electronic bulletin boards, for prohibited content and remove any such content that they discover on their websites.

The posting of news on websites and the distribution of news over the Internet are highly regulated and can only be engaged in by ICP license holders that have been specifically approved to do so. The Provisional Administrative Measures Regarding Internet Websites Carrying on the News Posting Business issued by the Press Office of the State Council and MIIT in November 2000 provide that only websites that are established by government-authorized news agencies may operate online news posting businesses and post news reported by news agencies. Other general websites not established by news agencies may apply to the State Council News Office for approval to post on their websites news supplied contractually by approved news providers. A copy of the relevant news supply contract must be filed with the applicable provincial information offices where such other websites are located. These regulations also provide specific requirements with respect to facilities and level of experience of personnel that must be met by applicants for approval to post news on their websites. According to the Administration of Internet News Information Services Provisions promulgated by the Press Office of the State Council and MIIT on September 25, 2005 and effective as of such date, the term “news information” in these provisions means news information about current affairs, including reports and commentaries on social and public affairs such as political, economic, military and foreign affairs, as well as reports and commentaries on sudden social events. The term “Internet news information services” means publication of news information, provision of electronic bulletin board services for current affairs and distribution of information of current affairs to the public through the Internet. The Press Office of the State Council is in charge of nationwide supervision and regulation of Internet news information services. The press office of each province, autonomous region and municipality directly under the central government is in charge of regulating the Internet news information services within its administrative region. If any information we provide through our websites is deemed current affairs, we may be subject to the above regulations.

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

The State Administration of Radio, Film and Television, or SAPPRT, promulgated the Rules for Administration of Broadcasting of Audio-Video Programs through the Internet and Other Information Networks, or the Broadcasting Rules, in 2004, which became effective on October 11, 2004. The Broadcasting Rules apply to the activities of broadcasting, integrating, transmitting and downloading of audio-video programs with computers, televisions or mobile phones 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.

On December 20, 2007, SAPPRT and MIIT issued the Internet Audio-Video Program Measures, which became effective on January 31, 2008. Among other things, the Internet Audio-Video Program Measures stipulate that no entities or individuals may provide Internet audio-video program services without a License for Disseminating Audio-Video Programs through Information Network issued by SAPPRT or its local counterparts or completing the relevant registration with SAPPRT or its local counterparts and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transfer to the public through the Internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. On February 3, 2008, SAPPRT and MIIT jointly held a press conference in response to inquiries related to the Internet Audio-Video Program Measures, during which SAPPRT and MIIT officials indicated that providers of audio-video program services established prior to the promulgation date of the Internet Audio-Video Program Measures that do not have any regulatory non-compliance records can re-register with the relevant government authorities to continue their current business operations. After the conference, the two authorities published a press release that confirms the above guidelines. On September 15, 2009, SAPPRT promulgated a notice regarding the issues of the management of Internet Audio-Video Program Services License, pursuant to which, the closing date of the application for re-registration of the Internet Audio-Video Program Services License was December 20, 2009.

Due to uncertainties with respect to the interpretation and application of the Internet Audio-Video Program Measures, each year, we and our PRC counsel consult the Beijing Branch of SAPPRFT, or Beijing SAPPRFT, regarding whether online education services providers like us that provide audio-video educational courses and programs through the Internet only to enrolled course participants should apply for said license. After numerous discussions between Beijing SAPPRFT and us, on August 1, 2011, Beijing SAPPRFT sent us an official response stating that the License for Disseminating Audio-Video Programs through Information Network is not applicable to us and that we are not required to obtain the License for Disseminating Audio-Video Programs. We cannot guarantee that Beijing SAPPRFT will not change its position or that the reply will not be challenged by higher authorities in China, or that we will not be asked to obtain the said license again. For more details, see “Item 3.D. Risk Factors — If we are unable to re-register or obtain the necessary license as required by the Administrative Measures Regarding Internet Audio-Video Program Services, or the Internet Audio-Video Program Measures, in a timely manner or at all, our equity ownership structure may require significant restructuring, or we may become subject to significant penalties, fines, legal sanctions or an order to suspend our use of audio-video content, in which case our business, financial condition and results of operations may be materially and adversely affected.”

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 has enacted a law that may subject to criminal punishment in China any person who: (i) gains improper entry into a computer or system of strategic importance; (ii) disseminates politically disruptive information; (iii) leaks state secrets; (iv) spreads false commercial information; or (v) infringes 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 are 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 websites. We believe we are in compliance with these regulations.

Regulation of Domain Names and Website Names

PRC law requires owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MIIT and obtain registration certificates from such registration agencies. A registered domain name owner has an exclusive use right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of September 30, 2014, we had registered 273 domain names relating to our websites, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center.

PRC law requires entities operating commercial websites to register their website names with the State Administration of Industry and Commerce or its local offices and obtain commercial website name registration certificates. If any entity operates a commercial website without obtaining such a certificate, it may be charged a fine or imposed other penalties by SAIC or its local offices. We have registered 14 website names used in connection with our online education business with Beijing Municipal Bureau of Industry and Commerce.

Regulation of Internet Publishing

In June 2002, the State Press and Publications Administration and MIIT issued the Interim Provisions on Internet Publishing, or the Internet Publishing Regulations. The Internet Publishing Regulations require that all entities engaging in Internet publishing obtain approval from the State Press and Publications Administration before they can conduct any Internet publishing business. “Internet publishing” is broadly defined in the Internet Publishing Regulations as an act of online dissemination of works created by ICP license holders or others that such ICP license holders select, edit and process and subsequently post on the Internet or transmit to users via the Internet for browsing, reading, use or downloading by the public. These works include contents from books, newspapers, periodicals, audio-video products, electronic publications that have already been formally published or works that have been made public in other media or from the browsed and processed works relating to literature, art, nature science, social science, engineering technology and other aspects. The Internet Publishing Regulations include a requirement for Internet publishing organizations to have professional editorial personnel examine the contents being published to ensure that they comply with applicable laws. We believe we currently operate our business in a manner that complies with this regulation.

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, it may be liable for damages caused to its users and penalties or sanctions may be imposed by PRC governmental authorities including MIIT or its local counterparts. We believe we are in compliance with these regulations.

On December 28, 2012, the Standing Committee of the National People's Congress promulgated the Decision to Strengthen the Protection of Internet Information, or the Information Protection Decision, to strengthen the protection of personal information on the Internet. The Information Protection Decision provides that the Internet content providers must expressly inform their users of the purpose, manner to collect and use the users' personal information and the scope of the information to be collected and used by the provider. In addition, the Internet content providers can collect and use the user's personal information only with the consent of users and only within the scope of such consent. On July 16, 2013, MIIT promulgated the Provisions on the Protection of Personal Information of Telecommunication and Internet Users, which defines "Personal Information" as the information that can be used individually or in combination with other information to identify the users, including but not limited to the name, birth date, ID No., address, telephone number and account number.

Regulations on Protection of the Right of Dissemination through Information Networks

On May 18, 2006, the State Council promulgated the Regulations on Protection of the Right of Dissemination through Information Networks, or the Dissemination Protection Regulations, which became effective on July 1, 2006 and was amended on January 30, 2013. The Dissemination Protection Regulations require that every organization or individual who disseminates a third-party's work, performance, audio or visual recording products to the public through information networks shall obtain permission from, and pay compensation to, the copyright owner of such products, unless otherwise provided under relevant laws and regulations. The copyright owner may take technical measures to protect his or her right of dissemination through information networks and any organization or individual shall not intentionally evade, circumvent or otherwise assist others in evading such protective measures unless permissible under law. The Dissemination Protection Regulations also provide that permission from the copyright owners and compensation for the copyright-protected works is not required in the event of limited dissemination to teaching or research staff for the purpose of school teaching or scientific research only.

Regulation of Online Cultural Activities

On February 17, 2011, the Ministry of Culture promulgated the Interim Administrative Provisions on Internet Culture, or the Internet Culture Provisions, which became effective on April 1, 2011. The Internet Culture Provisions apply to all ICPs that engage in the production and dissemination of cultural products via the Internet. "Internet cultural activities" is defined in the Internet Culture Provisions as an act of provision of Internet cultural products and related services, which includes (i) the production, duplication, importation, and broadcasting of the Internet cultural products; (ii) the online dissemination whereby cultural products are posted on the Internet or transmitted via the Internet to end-users, such as computers, fixed-line telephones, mobile phones, television sets and games machines, for online users' browsing, use or downloading; and (iii) the exhibition and comparison of the Internet cultural products. In addition, "Internet cultural products" is defined in the Internet Culture Provisions as cultural products produced, broadcasted and disseminated via the Internet, which mainly include internet cultural products specially produced for the Internet, such as online music entertainment, online games, online shows and plays (programs), online performances, online works of art and online cartoons; and internet cultural products produced from cultural products such as music entertainment, games, shows and plays (programs), performances, works of art, and cartoons through certain techniques and duplicate those to internet for dissemination. All entities engaging in commercial Internet cultural activities, or Internet Cultural Entities, must be approved by the governmental agency of culture at the provincial level and by MIIT. Beijing Champion holds a Permit of Internet Cultural Activities issued by Beijing Municipal Bureau of Culture that is valid through December 31, 2014 and Beijing Champion is in the process of renewing such permit.

Regulation of Online and Distance Education

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

Under the Online Education Regulations, setting up educational websites and online education schools is subject to approval from relevant education authorities, depending on the specific types of education provided. Under the Online Education Regulations, any educational website and online education school shall, upon receipt of approval, indicate on its website such approval information as well as the approval date and file number.

According to the Administrative License Law promulgated by the 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 establish administrative license requirements. On June 29, 2004, the State Council promulgated the Decision on Cutting Down Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to be Retained, in which the administrative license for "online education schools" was retained, while the administrative license for "educational websites" was not retained.

Based on the opinion of our PRC legal counsel, Jingtian & Gongcheng, we believe that:

- None of Beijing Champion, Caikaowang, Champion Wangge and Zhengbao Yucai is required to obtain a license to operate "educational websites" from the MOE under the current PRC laws or regulations;
- None of Beijing Champion, Caikaowang, Champion Wangge and Zhengbao Yucai is required to obtain a license to operate "online education schools" because it does not offer through its website education services or training programs that directly offer government accredited academic degrees or other government accreditation certifications.

However, as the Administrative Regulations on Educational Websites and Online and Distance Education Schools has not been officially abolished, MOE or its local counterparts may continue to require online education providers like us to obtain approvals to run online education websites. If so required, we cannot assure you that such approvals can be obtained by us timely or at all.

Regulation on the Wholesale, Retail and Rental of Book and Audio-Video Products

Under the Administrative Measures for the Publication Market, or Administrative Measures, which was jointly promulgated by the State Press and Publication Administration and the Ministry of Commerce and became effective on March 25, 2011, any enterprise or individual wishing to engage in publication distributing activities must obtain permission from the press and publication agency at relevant levels. "Publication" and "distributing" are defined, respectively, in the Administrative Measures, as "books, newspapers, periodicals, audio-video products, and electronic publications" and "general distribution, wholesale, retail, rental, exhibition and other activities." Any enterprise or individual who engages in publication wholesale shall obtain a Publication Business License issued by the press and publication agency at the provincial level. A publications wholesale enterprise can engage in retail distribution as well. Any enterprise or individual who engages in publication rental shall file a record to the press and publication agency at the county level. Beijing Champion holds a Publication Business Permit for book wholesale issued by Beijing Press and Publication Bureau in February 2008 under which Beijing Champion is allowed to engage in the book wholesale and retail businesses. This permit is valid through December 31, 2015.

Regulation on E-commerce

China's e-commerce industry has developed quickly and a handful of PRC laws and regulations broadly regulates all goods and services provided through the Internet. In January 2005, the State Council adopted the Several Opinions on Promotion of the Development of E-commerce, which provides the guideline for the administration of e-commerce business in the PRC. To further implement this regulation, the Ministry of Commerce adopted in March 2007 the Guiding Opinions on Online Trading (for Tentative Implementation), which defines online trading as the trade of goods or services conducted between buyers and sellers via the Internet. All online trading participants must abide by the relevant PRC laws and are prohibited from carrying out illegal activities through online trading. In January 2014, SAIC adopted the Administrative Measures for Online Trading, which provides that online sellers must display their business licenses or the links to their business license on relevant web pages, take measures to ensure the safety of online transaction and issue purchase vouchers to consumers in accordance with relevant laws or business practices.

Regulations on Private Education

The principal regulations governing private education in China consist of the Education Law of the PRC, the Law for Promoting Private Education (2003) and the Implementation Rules for the Law for Promoting Private Education (2004). These regulations are summarized below.

On March 18, 1995, the National People's Congress promulgated the Education Law of the PRC, or the Education Law, which became effective on September 1, 1995. The Education Law stipulates that enterprises, social organizations and individuals are encouraged to operate schools and other types of educational organizations in accordance with the PRC laws and regulations. Meanwhile, no organization or individual may establish or operate a school or any other institution of education for profit-making purposes. However, private schools may be operated for "reasonable returns" as described in more detail below.

The Law for Promoting Private Education (2003) became effective on September 1, 2003 and was amended on June 29, 2013, and the Implementation Rules for the Law for Promoting Private Education (2004) became effective on April 1, 2004. Under these regulations, "private schools" are defined as schools established by social organizations or individuals using non-government funds. In addition, private schools providing certifications, pre-school education, education for self-study aid and other academic education shall be subject to approval by the education authorities, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labor and social welfare. A duly approved private school will be granted a Permit for Operating a Private School, and shall be registered with the Ministry of Civil Affairs of the PRC, or MCA or its local counterparts as a privately-run, non-enterprise institution. Champion Training School holds a Permit for Operating a Private School, which is valid through March 31, 2016.

Under the above regulations, private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. In addition, the operation of private schools is highly regulated. For example, the types and amounts of fees charged by private schools offering certifications must be approved by the relevant governmental authority and be publicly disclosed, and the types and amounts of fees charged by private schools that do not offer certifications need only be filed with the relevant governmental authority and be publicly disclosed.

Private education is treated as a public welfare undertaking under the regulations. Nonetheless, investors in a private school may choose to require "reasonable returns" from the annual net balance of the school after deduction of costs, donations received, government subsidies, if any, the reserved development fund and other expenses as required by the regulations.

The election to establish a private school requiring reasonable returns shall be provided in the articles of association of the school. The percentage of the school's annual net balance that can be distributed as reasonable returns shall be determined by the school's board of directors, taking into consideration the following factors: (i) the school's tuition and other fees, (ii) the ratio of the school's expenses used for educational activities and improving the educational conditions to the total fees collected; and (iii) the school's admission standards and educational quality. Information relating to the above factors shall be publicly disclosed before the school's board determines the percentage of the school's annual net balance that can be distributed as reasonable returns. This disclosed information and the decision to distribute reasonable returns shall also be filed with the approval authorities within 15 days from the decision made by the board. However, none of the current PRC laws and regulations provides a formula or guidelines for determining "reasonable returns." In addition, none of the current PRC laws and regulations sets forth different requirements or restrictions on a private school's ability to operate its education business based on such school's status as a school that requires reasonable returns or a school that does not require reasonable returns. On July 29, 2010, the PRC central government, in the Outlines of China's National Plan for Medium and Long Term Education Reform and Development promulgated by it, for the first time announced the policy that the government will implement a reform to divide private education entities into two categories: (i) for-profit private education entities and (ii) not-for-profit private education entities. However, this outline is still new and no further law or regulation has been promulgated to implement it yet.

At the end of each fiscal year, private schools are required to allocate a certain amount to their development fund for the construction and maintenance of the school and the procurement and upgrade of educational equipment. In the case of private schools that require reasonable returns, this amount shall be no less than 25% of the annual net income or the annual increase in the net assets of the school, while in the case of private schools that do not require reasonable returns, this amount shall be no less than 25% of the annual increase in the net assets of the school, if any. Private schools that do not require reasonable returns shall be entitled to the same preferential tax treatment as public schools. The regulations require that preferential tax treatment policies applicable to private schools requiring reasonable returns to be formulated by the finance authority, taxation authority and other authorities under the State Council, but to date no such regulations have been promulgated by the relevant authorities.

Regulation on Copyright and Trademark Protection

China has adopted legislation governing intellectual property rights, including copyrights and trademarks. China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001. The National People's Congress amended the Copyright Law in 2001 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the National Copyright Administration and the MII jointly promulgated the Administrative Measures for Copyright Protection Related to the Internet on April 29, 2005. These measures became effective on May 30, 2005.

The PRC Trademark Law, adopted in 1982 and revised in 2001, protects the proprietary rights to registered trademarks. The Trademark Office under SAIC handles trademark registrations and grants a term of ten years to registered trademarks and another ten years to trademarks as requested upon expiry of the prior term. Trademark license agreements must be filed with the Trademark Office for record. In addition, if a registered trademark is recognized as a well-known trademark in a specific case, the proprietary right of the trademark holder may be extended beyond the registered sphere of products and services of the trademark in such case.

Employment Laws

In accordance with the Labor Law, which became effective in January 1995, and the Labor Contract Law, which became effective in January 2008, as amended subsequently, employers must execute written labor contracts with full-time employees in order to establish an employment relationship. According to the Labor Contract Law, an employer is under an obligation to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unlimited term, with certain exceptions. The employer must also pay severance to an employee in nearly all instances where a labor contract, including a contract with an unlimited term, is terminated or expires. All employers must compensate their employees equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with appropriate workplace safety training. In addition, the government has continued to introduce various new labor-related regulations after the Labor Contract Law. Among other things, new annual leave requirements mandate that annual leave ranging from 5 to 15 days is available to nearly all employees and further require that the employer compensate an employee for any annual leave days the employee is unable to take in the amount of three times his daily salary, subject to certain exceptions. In addition, companies operating in China are required to participate in social insurance and housing fund plans in which the employers must pay for the employees social welfare and housing fund based upon certain percentages of employees' salaries.

Regulation of Foreign Exchange

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

Under current PRC regulations, foreign-invested enterprises such as our PRC subsidiaries are required to apply to SAFE for a Foreign Exchange Registration Certificate for Foreign-Invested Enterprise. With such a 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.

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

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

Regulation of Foreign Exchange Registration of Offshore Investment by PRC Residents

Pursuant to the SAFE Notice on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Round-Trip Investment Conducted by Domestic Residents through Special-Purpose Vehicles, or SAFE Circular 37, which became effective as of July 4, 2014, a PRC Resident, including both PRC domestic institutions and PRC domestic individual residents, shall register with the local branch of SAFE before it establishes or controls an company outside of China with the domestic or overseas assets or equity they legally hold for the purpose of investment and financing and conducting roundtrip investment in China. Such a company located outside of China is referred to as an offshore special purpose vehicle. Under SAFE Circular 37, failure to comply with the registration procedures set forth above may result in the penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

As a Cayman Islands company, we are considered a foreign entity in China. If we purchase the assets or equity interests of a PRC company owned by PRC residents in exchange for our equity interests, such PRC residents will be subject to the registration procedures described in SAFE Circular 37. Moreover, PRC residents who are beneficial holders of our shares are required to register with SAFE in connection with their investment in us.

Regulation of Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective on September 8, 2006 and was amended on June 22, 2009, or the M&A Rule. This M&A Rule, among other things, has certain provisions that require offshore special purpose vehicles, or SPVs, formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to listing their securities on an overseas stock exchange.

We believe, based on the opinion of our PRC legal counsel, Jingtian & Gongcheng, that while the CSRC generally has jurisdiction over overseas listings of SPVs like us, CSRC's approval was not required for our initial public offering given the fact that our current corporate structure was established before the M&A Rule became effective. There remains some uncertainty as to how the M&A Rule will be interpreted or implemented in the context of an overseas offering. If the CSRC or another PRC regulatory agency subsequently determines that approval was required for our initial public offering, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, restrict or prohibit payment or remittance of dividends by our PRC subsidiaries to us 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 ADS. See "Item 3.D. Key Information — Risk Factors — General Risks Relating to Conducting Business in China — If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency determines that its approval was required in connection with our initial public offering, we may become subject to penalties."

Regulation of Security Review

On February 3, 2011, the General Office of the State Council issued the Circular of the General Office of the State Council on the Establishment of Security Review System for Foreign Investors' Merger and Acquisition of Domestic Enterprises (the "Circular on the Establishment of Security Review"), which became effective on March 4, 2011. Among other things, the Circular on the Establishment of Security Review stipulates that the scope of the security review lies in foreign investors' acquisition of domestic military enterprises, military-related enterprises, enterprises involving sensitive military facilities and other enterprises that impact national defense security; foreign investors' acquisition of domestic enterprises which may provide foreign investors with de facto control over industries relating to national security, such as important agricultural products, energy and natural resources, infrastructures, transportation services, technologies and major equipment manufacturing. On August 25, 2011, the Ministry of Commerce issued the Circular of the Ministry of Commerce on the Implementation of Security Review System for Foreign Investors' Merger and Acquisition of Domestic Enterprises (the "Circular on the Implementation of Security Review"), which became effective on September 1, 2011. Among other things, the Circular on the Implementation of Security Review further specifies that whether a foreign investors' acquisition of domestic enterprises falls within the scope of the security review depends on the said transaction's substantive content and practical influence. Foreign investors shall not circumvent the security review through any arrangements or schemes, including but not limited to trust, lease and/or contractual arrangements.

According to our PRC counsel, as our contractual arrangements were established in 2003, the new security review system shall not apply to our contractual arrangements. We cannot guarantee, however, that the Ministry of Commerce will not promulgate additional implementing rules or new rules that will bring our contractual arrangements under the scope of the security review system. Moreover, according to a press conference held by the Ministry of Commerce on September 20, 2011, there are no specific laws or regulations governing contractual arrangements like the ones that we employ, but the Ministry of Commerce together with other authorities would study how to regulate them in the future. Hence, we cannot assure you that our contractual arrangements will not be subject to new regulations that will be issued by relevant regulatory authorities and that such new regulations will not cause any material adverse effect on our existing structure. See "Item 3.D. Key Information — Risk Factors — Risks Relating to Our Corporate Structure and Restrictions on Our Industry — Our contractual arrangements may be subjected to severe censorship under PRC laws and regulations and, thus, be challenged by relevant regulatory authorities."

SAFE Regulations on Employee Share Options

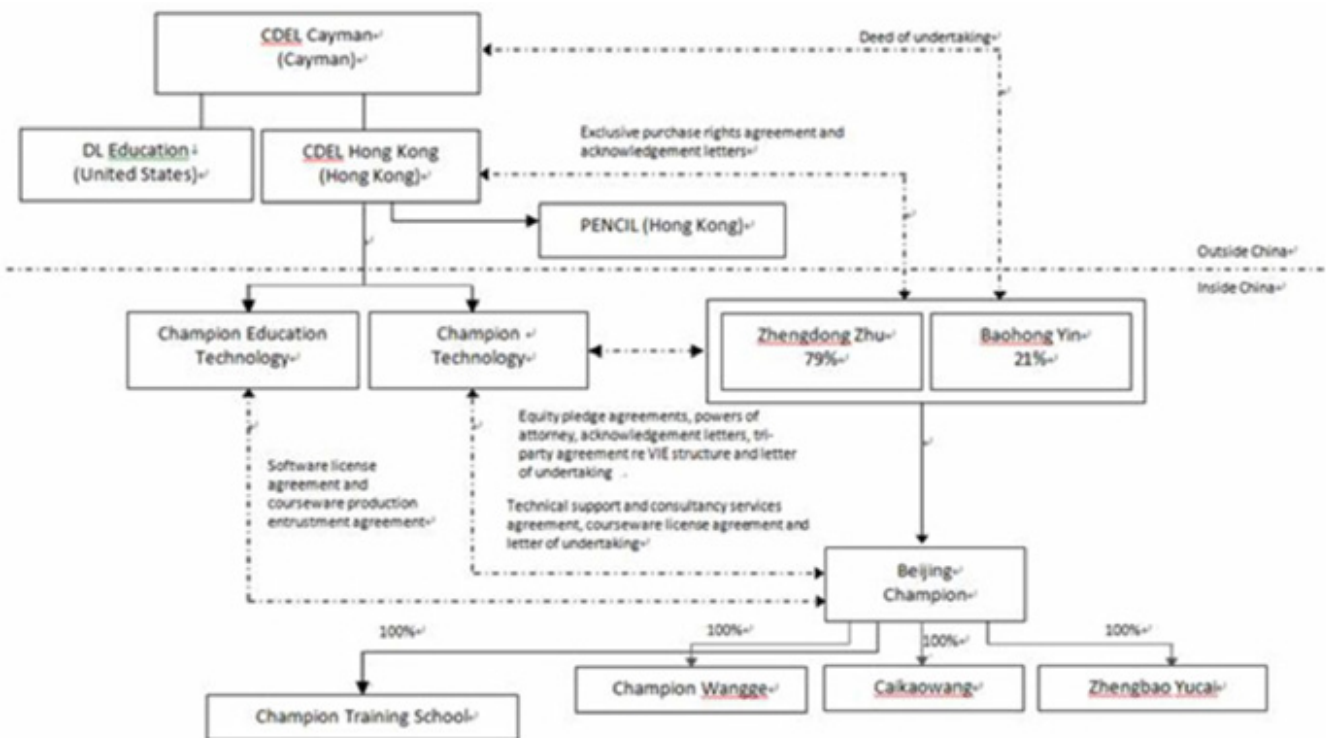
On February 15, 2012, SAFE issued the Notice on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rules. According to the Stock Option Rules, PRC residents who participate in an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

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

C. Organizational Structure

Due to PRC legal restrictions on foreign ownership and investment in the Internet content distribution industry in China, we operate our online education business through Beijing Champion, a domestic Chinese company owned by Mr. Zhengdong Zhu and Ms. Baohong Yin, both of whom are PRC citizens. We have entered into a series of contractual arrangements with Beijing Champion and its shareholders as disclosed below. As a result of these contractual arrangements, we have the power to direct the activities of, and have the right to receive benefits from, Beijing Champion, and accordingly, under U.S. GAAP, we consolidate Beijing Champion's operating results in our consolidated financial statements. For risks associated with these contractual arrangements, see "Item 3.D. Key Information — Risk Factors — Risks Relating to Our Corporate Structure and Restrictions on Our Industry."

The following diagram illustrates our corporate and share ownership structure as of the date of this annual report.



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

Agreements that transfer economic benefits of the controlled affiliates and their subsidiaries to us

Technical Support and Consultancy Services Agreement, dated May 1, 2004. Under this agreement, Champion Technology provides Beijing Champion with exclusive technical support and consultancy services relating to Beijing Champion’s online education business. The services rendered by Champion Technology mainly include assisting in course creation and production, undertaking pre-paid study card production, advising on website design and maintenance, providing general technology support and technical personnel training, assisting in strategic planning and business development and establishing and implementing a customer service system. In return, Beijing Champion pays Champion Technology a monthly service fee approved by Champion Technology. In addition, Beijing Champion undertook not to approve its annual budget, or engage in any transactions that could materially affect Beijing Champion’s capital structure, assets, liabilities, rights or operations, without the prior written consent of Champion Technology. Champion Technology undertook to provide financial support at Beijing Champion’s request in a manner permitted by law. This agreement will remain effective until Beijing Champion ceases its operations.

Equity Pledge Agreements entered into on May 1, 2004 and amended and restated on December 31, 2008. To secure the payment obligations of Beijing Champion under the technical support and consultancy services agreement described above, each of Beijing Champion’s shareholders, Mr. Zhu and Ms. Yin, pledged to Champion Technology his or her entire equity ownership interests in Beijing Champion pursuant to an Equity Pledge Agreement entered into on May 1, 2004, or the May 2004 Equity Pledge Agreement. In May 2008, Mr. Zhu and Ms. Yin contributed an additional RMB16.8 million (\$2.5 million) to Beijing Champion as increased registered capital. In connection with such capital contribution to Beijing Champion, each of Mr. Zhu and Ms. Yin amended and restated his or her May 2004 Equity Pledge Agreement on December 31, 2008, or the Amended and Restated Equity Pledge Agreement. The pledge created under each of the Amended and Restated Equity Pledge Agreements could only become effective after such pledge is registered with SAIC or its local office. We successfully registered the pledge created under each of the Amended and Restated Equity Pledge Agreements with the Beijing office of SAIC on January 12, 2009. Upon the occurrence of certain events of default specified in the Amended and Restated Equity Pledge Agreements, the pledgee may exercise its rights and foreclose on the pledged equity interest. Under such agreements, the pledgor may not transfer the pledged equity interests without the pledgee’s prior written consent. The agreements will also be binding upon successors of the pledgors and transferees of the pledged equity interests. These agreements will remain effective until the discharge of Beijing Champion’s contractual obligations under the technical support and consultancy services agreement as described above.

Letter of Undertaking from Beijing Champion's Shareholders to Champion Technology, dated February 13, 2008. Pursuant to this letter addressed to Champion Technology, the shareholders of Beijing Champion undertook to, unless restricted by laws, regulations or legal procedures, (i) remit all dividends, interests, other distributions or remnant assets after liquidation, if any, they receive from Beijing Champion to Champion Technology without compensation, after paying the corresponding tax and any other required expenses, (ii) transfer all or part of their equity interests in Beijing Champion to CDEL Hong Kong at a nominal or minimal purchase price, in the event CDEL Hong Kong exercises its exclusive purchase right to acquire any or all of the equity interests in Beijing Champion, (iii) remit to Champion Technology all considerations they may receive from CDEL Hong Kong's acquisition of any equity interests in Beijing Champion, without compensation, after paying the corresponding tax and any other required expenses and (iv) act in the best interest of Champion Technology.

Declaration Letters, dated March 24, 2008. Pursuant to these letters, the shareholders of Beijing Champion acknowledged that the distribution of dividends in March 2005 in the amount of \$0.7 million was a one-time distribution of all dividends accrued prior to the execution of the technical support and consultancy services agreement described above. After the aforesaid one-time dividend distribution, the shareholders of Beijing Champion undertook that they will, unless restricted by law, remit all dividends they may receive from Beijing Champion to Champion Technology after paying applicable tax and other required expenses.

Software License Agreement, dated May 20, 2007. Pursuant to this agreement, Champion Education Technology granted Beijing Champion a non-exclusive license to use the online course delivery platform for the duration of its operating period. In return, Beijing Champion pays Champion Education Technology a license fee calculated based on the revenues generated from the use of the platform.

Courseware Production Entrustment Agreement, dated May 20, 2007. Pursuant to this agreement, Champion Education Technology provides Beijing Champion with services of editing, production, compilation, updating and maintenance of courseware. As consideration, Beijing Champion pays Champion Education Technology a fee calculated based on an hourly rate.

Agreements that provide us with effective control over the controlled affiliates and their subsidiaries

Exclusive Purchase Rights Agreement, dated May 9, 2004. Pursuant to the exclusive purchase rights agreement entered into among CDEL Hong Kong, Beijing Champion and its shareholders, CDEL Hong Kong or any third-party designated by it has the right to acquire, in whole or in part, the respective equity interests in Beijing Champion of its shareholders when permitted by applicable PRC laws and regulations. The term of this agreement is ten years and can be extended for another ten years at the discretion of CDEL Hong Kong. On December 19, 2014, CDEL Hong Kong decided to extend the term of this agreement for another ten years and retroactively acknowledged the validity of this agreement for the period from May 9, 2014 to December 19, 2014.

Powers of Attorney, dated March 25, 2008. Pursuant to these powers of attorney, each shareholder of Beijing Champion authorized Champion Technology or any person it designates to (i) exercise all voting powers that such shareholder enjoys under the laws and the articles of association of Beijing Champion, including the sale, transfer or pledge, in whole or in part, of such shareholder's equity interests in Beijing Champion; (ii) nominate and appoint, on behalf of such shareholder, the legal representative, directors, supervisors, general manager, and other senior management of Beijing Champion; (iii) execute the share transfer agreement as contemplated by the exclusive purchase rights agreement described above, and perform the equity pledge agreement and the exclusive purchase rights agreement described above; and (iv) authorize any third party to carry out any of the above actions. In addition, the shareholders undertook to refrain from exercising any of the abovementioned rights.

Notice to Beijing Champion and its Shareholders, dated March 25, 2008. Pursuant to this notice, Champion Technology authorized Mr. Zhengdong Zhu to exercise all rights and powers granted by the powers of attorney described above.

Acknowledgement Letter to Champion Technology, dated March 25, 2008. Pursuant to this acknowledgement letter, the shareholders of Beijing Champion acknowledged that their contribution of RMB3.2 million (\$0.5 million) to the registered capital of Beijing Champion prior to May 1, 2004 is subject to the equity pledge agreements described above.

Acknowledgement Letter to CDEL Cayman, dated March 25, 2008. Pursuant to this acknowledgement letter, the shareholders of Beijing Champion acknowledged their contribution of \$0.5 million (equivalent to RMB3.2 million) to CDEL Hong Kong in May 2004 is subject to the equity pledge agreements described above.

Tri-party Agreements re VIE Structure, dated January 30, 2013. To secure the performance of the obligations under the powers of attorney and the letters of undertaking described above, Champion Technology, Mr. Zhu, Ms. Yin and Beijing Champion entered into the tri-party agreements re VIE structure, pursuant to which Champion Technology has the right to request Mr. Zhu or Ms. Yin to unconditionally transfer his or her entire equity interests in Beijing Champion to Champion Technology or its designated third party within a certain period of time required by Champion Technology if Mr. Zhu or Ms. Yin breaches any provision of the power of attorney or the letter of undertaking. In addition, Champion Technology may also request Mr. Zhu or Ms. Yin to provide sufficient security to the satisfaction of Champion Technology and enter into a security agreement proposed by Champion Technology within a certain period of time required by Champion Technology if Champion Technology determines in its discretion that Mr. Zhu or Ms. Yin violates any provision of the powers of attorney or the letters of undertaking. If Mr. Zhu or Ms. Yin breaches this agreement, he or she shall compensate Champion Technology for any and all economic losses directly or indirectly arising from his or her breach of this agreement, the powers of attorney and the letters of undertaking.

Spousal Consent Letters, dated January 30, 2013. The spouse of each shareholder of Beijing Champion (i.e. Mr. Zhu and Ms. Yin) has entered into a spousal consent letter to acknowledge that he or she consents to the disposition of the equity interests held by his or her spouse in Beijing Champion in accordance with the exclusive purchase rights agreement, the letter of undertaking, the power of attorney, the equity pledge agreement and the tri-party agreements re VIE structure described above, and any other supplemental agreement(s) may be consented by his or her spouse from time to time. Each such spouse further agrees that he or she will not take any action or raise any claim to interfere with the arrangements contemplated under the above mentioned agreements. In addition, each such spouse further acknowledges that any right or interest in the equity interests held by his or her spouse in Beijing Champion do not constitute property jointly owned with his or her spouse and each such spouse unconditionally and irrevocably waives any right or interest in such equity interests.

Deed of Undertaking from Mr. Zhengdong Zhu and Ms. Baohong Yin to our Company, dated September 26, 2013. Pursuant to this deed, Mr. Zhengdong Zhu and Ms. Baohong Yin irrevocably covenanted and undertaking to our company to abstain from (1) utilizing their status as majority shareholders of our company to vote for the appointment or removal of a director of our company and (2) any matters related to the Deed. This deed was terminated automatically upon the completion of our follow-on public offering on March 11, 2014 as Mr. Zhu and Ms. Yin no longer owned a majority of our outstanding ordinary shares after the follow-on public offering.

Other agreements among our subsidiaries and the controlled affiliates

Courseware License Agreement, dated August 1, 2004. Pursuant to this agreement, Beijing Champion granted Champion Technology an exclusive license to use specific distance education and training courseware owned by Beijing Champion without charge. Under this agreement, Champion Technology is granted the rights to use the courseware for the duration of its operating period.

Letter of Undertaking from Champion Technology to Beijing Champion, dated February 13, 2008. Pursuant to this letter, Champion Technology confirmed its obligation to provide financial support to Beijing Champion if Beijing Champion suffers any financial loss.

D. Property, Plants and Equipment

Our principal executive offices are located in approximately 2,495 square meters of office space on the 18th floor, Xueyuan International Tower, No. 1 Zhichun Road, Haidian District, Beijing, 100083, China. We also own approximately 355 square meters of office space in Hangzhou, China. We also lease approximately 3,730 square meters of office space at the Xueyuan International Tower and 7,040 square meters of office and staff quarter space at various locations of China, Hong Kong and United States. We believe that, if needed, additional space can be obtained on commercially reasonable terms to meet our future requirements.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report on Form 20-F. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See “Introduction — Forward Looking Statements.” In evaluating our business, you should carefully consider the information provided under “Item 3.D. Key Information — Risk Factors.” We caution you that our business and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

We believe that we are the largest provider of online education in China primarily focusing on professional education, as measured by total number of course enrollments in 2014. For the fiscal year ended September 30, 2014, we had course enrollments of over 3.2 million. As of September 30, 2014, our content library encompassed 245 course offerings, approximately 5,200 classes, and close to 21,000 hours of audio-video content across 13 subject areas. We believe our course participants are attracted to us by our high-quality, results-oriented courses, our students' superior learning experience empowered and supported by our robust, comprehensive and easy-to-use proprietary online Learning Management System that can be accessed via both PC and mobile devices, and our comprehensive learning support and services. We believe these attributes result in better performance for our test preparation courses, as measured by higher than national average exam passage rates, and will help us further expand our leadership position in the online professional education market.

We focus our online professional education services in three high-growth industries: accounting, healthcare and engineering & construction. In addition, we also offer other professional education courses, such as the national judicial examination, online test-preparation courses for self-taught learners pursuing higher education diplomas or degrees, test preparation courses for university students intending to take the nationwide graduate school entrance exam, and online language courses. We also offer third-party developed online courses through our Online Open Learning Platform, a proprietary education platform that allows people to share their educational content and deliver live courses online. As of September 30, 2014, we operated 18 websites, including our main website www.cdeledu.com and 17 other websites, each dedicated to a specific industry, profession or disciplines. Our online education courses accounted for 77.3%, 82.1% and 82.9% of our net revenues in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. In addition to traditional online courses, we also offer certain fee-based, mobile accounting and engineering & construction courses through an app available on Android and Apple iOS tablets and smart phones. Furthermore, we also sell books and reference materials, offer offline business start-up training courses and offline accounting and healthcare professional training, and provide courseware production services and platform production services for certain customers.

To comply with PRC law, we have adopted a corporate structure whereby we operate our business through a series of contractual arrangements with Beijing Champion, a PRC entity owned by Mr. Zhengdong Zhu, our co-founder, chairman and chief executive officer, and his wife, Ms. Baohong Yin, our co-founder and deputy chairman. As a result, we do not enjoy direct equity ownership of Beijing Champion, our primary consolidated operating company. However, through these contractual arrangements, we effectively control Beijing Champion and its subsidiaries and, therefore, consolidate its financial results in our consolidated financial statements, and thus references to "we," "us," "our company" and "our" refer not only to China Distance Education Holdings Limited and its subsidiaries, but also to Beijing Champion and its subsidiaries as the context requires. For a more detailed discussion of these contractual arrangements, see "Item 4.C. Information on the Company — Organizational Structure," and for a detailed description of the regulatory environment for Internet-based businesses in China that necessitates our adoption of this structure, see "Item 4.B. Information on the Company — Business Overview — Regulations." In addition, for a detailed description of the risks associated with our corporate structure and these contractual arrangements that support our corporate structure, see "Item 3.D. Key Information — Risk Factors — Risks Relating to Our Corporate Structure and Restrictions on Our Industry."

Our net revenues were \$52.1 million, \$71.4 million and \$97.2 million in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. We had net income of \$8.2 million, \$13.6 million and \$23.4 million in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. Our total course enrollments from continuing operations were 2,203,000, 2,700,000 and 3,238,000 for the fiscal years ended September 30, 2012, 2013 and 2014, respectively.

General Factors Affecting Our Results of Operations

We have benefited significantly from overall economic growth and the expansion of the education market in China. Economic growth and increasing domestic consumption in China have contributed to a significant increase in spending on education. Furthermore, growth in China's professional services sector is driving demand for qualified talent in China, particularly in the areas of accounting, healthcare, engineering & construction, law and financial services. We have also benefited from increasing Internet and broadband penetration rates in China, which have increased the accessibility of online education and training courses as an effective and convenient way for people to meet their educational and career development needs.

Our results of operations may be affected by changes to the professional requirements applicable to the various fields covered by our courses. They may also be affected by changes in the timing, content and difficulty, or perceived difficulty, of exams covered by our courses, changes in continuing education requirements, cancellation of professional qualifications and certificates, and changes in the government subsidy policy applicable to our business start-up training courses. Exams covered by our courses may also, from time to time, be discontinued or postponed for reasons beyond our control, which may impact our revenues in certain periods. See “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our business could be adversely affected if there are changes in the perceived difficulty, requirements or formats of professional examinations, courses and continuing education in China, or if certain professional qualifications and certificates are cancelled by the government authorities.”, “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Changes in the government authorities’ subsidy policy with respect to our business start-up training courses could adversely affect our financial condition and results of operations.” and “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our financial performance and prospects could be affected by natural calamities or health epidemics.”

We have experienced and expect to continue to experience seasonality in revenues primarily due to seasonal changes in course enrollments and the timing of various exams, which are typically offered annually. See “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility in and adversely affect the price of our ADSs.”

Specific Factors Affecting Our Results of Operations

Our results of operations in any given period are also directly affected by company-specific factors, including:

- *Number of enrollments in our courses.* Our ability to generate and grow our net revenues is primarily affected by our ability to increase the number of course enrollments. This in turn is driven by several factors, including government and industry requirements for education and training in various professions, changes in exam schedules, recognition of our brand and services, Internet and broadband penetration rate, and the perceived effectiveness of our education courses. Government regulations requiring increased number of licensure and certification exams provide us with new market opportunities to develop new courses and to attract potential exam participants as our customers. Changes in exam content and knowledge requirements in certain industries and professions, and the increased difficulty, or perceived difficulty of certain exams covered by our courses, may also contribute to growth in our course enrollments as more exam takers may feel a stronger need to take exam preparation courses. Government policies encouraging business start-up training provide us with new market opportunities to develop new courses and to attract potential course participants to take our courses.

We may also, from time to time, experience a decrease in course enrollments in certain course offerings if there is a perception within the related industries or professions that certain exams have become less difficult, or the content more routine and familiar, and as a result these exam takers may be less inclined to spend additional money on test preparation courses. Finally, any government decisions to scale back, postpone or cancel certain exams, combine exams or adopt measures that might reduce the number of exam participants may adversely impact our revenues. For example, the PRC State Council promulgated a decision in August 2014, pursuant to which various professional qualifications or certificates, including the Registered Tax Agent and Certified Asset Appraiser, were cancelled or replaced with a qualification evaluation system administered by the State Council. As a result, the number of our students enrollments and, therefore, revenues generated from our course offerings for these professional qualifications or certificates are expected to be adversely affected.

- *Fees for our courses.* Our net revenues are also affected by the amount of fees we charge for our courses, which depends on the overall demand, the prices and availability of competing courses, perception of the quality and effectiveness of our courses and the income levels that our course participants expect to achieve upon passing the related licensure and certification exams. We may also experience pricing pressure as we expand our course offerings into new areas, or new segments and exams within existing areas that we cover, in an effort to attract new course participants. Additionally, our net revenues are affected by the percentage of discounts we provide to regional sales agents as our revenue from this source is recorded net of discount. In addition, net revenues generated from our business start-up training course are dependent on our ability to meet government stipulated conditions under their subsidy policies. Such stipulated conditions include the passage rate of our course participants’ business proposals as evaluated by the relevant government authorities, the business start-up rate and the employment rate of our business start-up course participants.

- *Our ability to expand the range of courses and other services.* Our ability to address market needs by expanding the range of our course offerings and other services has a direct impact on our ability to maintain growth in our course enrollments. Diversifying our sources of revenues also helps protect us from potential reduced student enrollment due to down-turns in certain industries or professions. To date, our accounting courses remain the largest and most important of all our course offerings in terms of revenue and number of course enrollments. Although we expect this to continue due to the importance of professional requirements in the accounting industry, we will continue to expand our course offerings in other areas to diversify and further grow our revenues. Over the past several years, we have developed our healthcare, engineering & construction and legal course offerings and further enhanced the reputation of our business start-up training courses.
- *Impact of business acquisitions.* Our ability to successfully identify, execute, integrate and manage new alliances and acquisitions can have a significant effect on our results of operations. We have pursued and may continue to pursue strategic alliance and acquisition opportunities to increase our service offerings and expand our growth; however, acquisitions may not generate the financial results we expect and may even result in losses.

Description of Key Line Items

Net Revenues

We derive net revenues from the sale of online education services, books and reference materials, and other related products and services. Our net revenues are presented net of PRC business tax and related surcharges, as well as value-added taxes. The following table sets forth a breakdown of our total net revenues for the periods indicated:

	Year Ended September 30,					
	2012		2013		2014	
	\$	% of net revenues	\$	% of net revenues	\$	% of net revenues
	(In thousands, except for percentages)					
Net Revenues						
Online education services	40,281	77.3%	58,573	82.1%	80,545	82.9%
Books and reference materials	4,438	8.5%	5,129	7.2%	6,392	6.6%
Others	7,383	14.2%	7,658	10.7%	10,259	10.5%
Total net revenues	52,102	100.0%	71,360	100.0%	97,196	100.0%

Online Education Services

We derive most of our revenues from the provision of online education services. Our online education services consist of online professional education and test preparation courses, test preparation courses for self-taught learners pursuing higher education degrees and test preparation courses for high school and college students preparing for various academic and college entrance exams, continuing education and professionals development courses, and language courses. Our professional training courses cover a wide range of industries, including accounting, healthcare, engineering & construction and others.

Our online courses are available in the following course formats: the regular class, the premium class and the elite class.

- Our regular class provides participants basic services such as audio-video course content and tutoring services.
- With our elite classes, course participants pay substantially higher course fees for more personalized and tailored course-related services. After completing an elite class, if a participant fails to pass the relevant exam and certain pre-agreed conditions are met, the course participant may elect to either receive a cash refund of the course fees paid or full credit towards future courses provided by us.
- With our premium classes, course participants enjoy high-quality premium course-related support services similar to the elite class participants. However, premium course participants do not enjoy refund privileges. Instead, in general, if a participant fails to pass the course examination and certain pre-agreed conditions are met, the course participant can retake the same premium course by paying us discounted course fees for the following year or years.

To enroll in our courses, course participants may choose to purchase pre-paid study cards from our distributors or to pay us through online or mobile payment using credit or debit cards via third-party payment networks, bank remittance, postage, or by cash at our offices.

Books and Reference Materials

We primarily sell our own proprietary learning materials relating to accounting professional courses and exams through third-party bookstores and distributors across China and directly through our online bookstore and our offices in Beijing. The sale of books and reference materials on topics related to our course subject matter complements our online course offerings, supplements the learning experience of our course participants, helps build brand recognition and loyalty among our course participants, and promotes our expertise and reputation in various professional fields. To promote our online courses, we also sell some of our books and reference materials together with complementary study cards which allow course participants to take certain number of online courses for no additional charge.

Others

We derive other net revenues mainly from the provision of offline training courses, courseware production services, platform production services, and consulting services.

Cost of Sales

Our cost of sales consists of cost of services and cost of tangible goods sold. The following table shows our cost of sales, gross profit and gross margin for the periods indicated.

	For the Year Ended September 30,					
	2012		2013		2014	
	\$	% of net revenues	\$	% of net revenues	\$	% of net revenues
Net Revenues	52,102	100.0%	71,360	100.0%	97,196	100.0%
Cost of sales:						
Cost of services	(20,494)	(39.3)%	(27,073)	(37.9)%	(35,187)	(36.2)%
Cost of tangible goods sold	(2,587)	(5.0)%	(2,844)	(4.0)%	(4,616)	(4.8)%
Total cost of sales	(23,081)	(44.3)%	(29,917)	(41.9)%	(39,803)	(41.0)%
Gross profit and gross margin ¹	29,021	55.7%	41,443	58.1%	57,393	59.0%

¹ Gross profit is equal to net revenues less cost of sales. Gross margin is equal to gross profit divided by net revenues.

Cost of Services

Cost of services accounted for 39.3%, 37.9% and 36.2% of our net revenues in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. Cost of services are mainly composed of salaries and related expenses for our tutors, course and content development, and information technology technicians and other employees, fees paid to our course lecturers, depreciation and amortization expenses, server management and bandwidth leasing fees paid to third-party providers, rental and related expenses, and other miscellaneous expenses.

Fees paid to lecturers comprised a significant portion of our cost of services because we allocate significant resources to hiring high-quality lecturers. The number of lecturers actively producing online courses for us was 376, 385 and 341 in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. Leveraging the online platform, we are able to achieve greater economies of scale than traditional offline programs that are limited by fixed teacher-student ratios as we are able to increase the number of course participants without having to increase the number of our lecturers. However, our fees paid to online lecturers as a percentage of our net revenues from online education services increased in the fiscal year ended September 30, 2014, as compared to the fiscal year ended September 30, 2013, as we raised hourly lecturer fees. In addition, our fees paid to offline lecturers also increased significantly in the fiscal year ended September 30, 2014, primarily due to expansion of our “tax school” program. As a result, our fees paid to lecturers as a percentage of our net revenues increased in the fiscal year ended September 30, 2014, as compared to the fiscal year ended September 30, 2013.

Our tutors, course and content development, and information technology technicians and other employees also play a critical role in our course development and delivery. We maintain a large, well-trained pool of tutors to answer questions from course participants by telephone or by email, usually within a 24-hour time period. Our tutors numbered 193 (including 35 part-time tutors), 323 (including 111 part-time tutors) and 292 (including 56 part-time tutors) as of September 30, 2012, 2013 and 2014, respectively. We also allocate sizable resources to retain course production technicians capable of creating high quality high-definition audio-video course materials and other interactive features for our online courses. The number of our course production technicians was 74, 60 and 52 as of September 30, 2012, 2013 and 2014, respectively. We also have a sizable pool of information technology technicians capable of developing a reliable, scalable and secure online platform and technology infrastructure to support our services. The number of our information technology technicians was 45, 64 and 107 as of September 30, 2012, 2013 and 2014, respectively. To date, salaries and related expenses constitute a large portion of our cost of services.

Cost of Tangible Goods Sold

Book sale costs primarily comprise printing fees for our proprietary books and reference materials and royalties paid to contributing authors. Book sale costs also include royalties paid to Becker for study materials of the American Institute of CPAs examination.

Operating Expenses

Our operating expenses consist of selling expenses, and general and administrative expenses.

Selling Expenses

Selling expenses accounted for 21.8%, 22.0% and 22.1% of our net revenues in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. Our selling expenses consist primarily of salaries and related expenses of our customer service staff and sales and marketing staff, commissions paid to our agents, advertising and promotion expenses, rental and related expenses, freight and delivery expenses related to our books and reference materials and promotional materials, and other selling expenses. The salaries of our customer service staff was significant as we increased the number of our customer service staff in line with greater number of course participants and other customers, and as we increased the number of our customer service staff to generate sales through our direct sales efforts. The salaries of our sales and marketing staff were also significant as we maintained the number of our sales and marketing staff at a high level to promote our business.

General and Administrative Expenses

Our general and administrative expenses accounted for 15.8%, 13.7% and 12.0% of our net revenues in the fiscal years ended September 30, 2012, 2013 and 2014, respectively. Our general and administrative expenses consist primarily of administrative staff compensation and benefits, professional fees, depreciation and amortization, rental and related expenses, share-based compensation expenses and other miscellaneous expenses. Staff benefits include pension, medical insurance, unemployment insurance, work-related injury insurance and housing subsidies. Other miscellaneous expenses include travel, office, communication and entertainment expenses.

Taxation

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands. However, there is a risk that we may be treated as resident in the PRC for tax purposes. See “Risk Factors — General Risks Relating to Conducting Business in China — Under China’s EIT Law, we may be classified as a ‘resident enterprise’ of China. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.”

CDEL Hong Kong is incorporated in Hong Kong and provides accounting professional training and educational consulting services. No provision for Hong Kong profits tax has been made as CDEL Hong Kong has no assessable profits in Hong Kong in the fiscal years ended September 30, 2012, 2013 and 2014. In addition, no Hong Kong withholding tax will be imposed on any payments of dividends distributed by CDEL Hong Kong to us.

PENCIL is incorporated in Hong Kong as a wholly-owned subsidiary of CDEL Hong Kong. PENCIL has not conducted any substantive operations since its inception. No provision for Hong Kong profits tax has been made as PENCIL has no assessable profits in Hong Kong in the fiscal years ended September 30, 2012, 2013 and 2014. In addition, no Hong Kong withholding tax will be imposed on any payments of dividends distributed by PENCIL to us through CDEL Hong Kong.

DL Education is incorporated in the United States as our wholly owned subsidiary. No provision for tax has been made as DL Education has no assessable profits in the United States in the fiscal years ended September 30, 2012, 2013 and 2014.

Enterprise Income Tax

The current and deferred components of the income tax expense appearing in our consolidated statements of operations are as follows:

	Years ended September 30,		
	2012	2013	2014
	\$	\$	\$
	(in thousands)		
Current tax expense	2,074	3,107	3,988
Deferred tax expense	526	690	64
	<u>2,600</u>	<u>3,797</u>	<u>4,052</u>

Champion Technology, Beijing Champion and Zhengbao Yucai obtained tax preferential treatments as “high and new technology enterprises” under EIT Law that resulted in lower tax rates. Champion Technology was and will be subject to the tax rate of 15% from 2010 through 2016, Beijing Champion was and will be subject to the tax rate of 15% from 2008 through 2016 and Zhengbao Yucai was subject to the tax rate of 15% from 2012 through 2014. Our other PRC entities are subject to standard income tax rate of 25% from 2012 through 2014. See “Risk Factors — General Risks Relating to Conducting Business in China — The discontinuation of any of the preferential tax treatments currently available to our PRC subsidiary, Champion Technology and affiliated entities, Beijing Champion and Zhengbao Yucai, could materially increase our tax liabilities.”

Our PRC subsidiaries’ earnings generated before 2008 that were available for distribution and were not subject to any PRC dividend withholding taxes amounted to \$6.7 million. We distributed such earnings in December 2012. For our PRC subsidiaries’ earnings generated after 2008 that were available for distribution, provisions of \$0.6 million, \$0.3 million and \$0.4 million have been made in the fiscal years ended September 30, 2012, 2013 and 2014, respectively, for the PRC dividend withholding taxes with respect to the distribution of these earnings to CDEL Hong Kong. See “Risk Factors — General Risks Relating to Conducting Business in China — We may not be able to obtain certain treaty benefits on dividends paid to us by our PRC subsidiaries through our Hong Kong Subsidiary.”

Under the EIT Law, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a PRC resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management bodies” as establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise. The SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore-incorporated enterprise is located in China. In addition, the SAT issued a bulletin on August 3, 2011, effective September 1, 2011, providing more guidance on the implementation of Circular 82. This bulletin clarifies matters including residence status determination, post-determination administration and competent tax authorities. Although both Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreign corporations, the determination criteria set forth in Circular 82 and the bulletin may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax residency status of offshore enterprises and how the administration measures should be implemented with respect to such enterprises, regardless of whether they are controlled by PRC enterprises or PRC individuals. Although we do not believe that our legal entities organized outside of the PRC constitute PRC resident enterprises, it is possible that the PRC tax authorities could reach a different conclusion. See “Risk Factors — Risks Relating to Doing Business in China — Under the PRC enterprise income tax law, we may be classified as a PRC ‘resident enterprise’, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.”

Business Tax, Value-Added Tax and Related Surcharges

We are mainly subject to 3.36% business tax and related surcharges on the revenues earned from provision of education services, which are recognized net of all business tax and related surcharges. The business tax and related surcharges net against revenues for the years ended September 30, 2012, 2013 and 2014 are approximately \$1.7 million, \$2.3 million and \$3.1 million, respectively.

On January 1, 2012, MOF and SAT officially launched a pilot value-added tax (“VAT”) reform program (“Pilot Program”), applicable to businesses in selected industries. Enterprises engaged in such selected industries in the Pilot Program would pay VAT in lieu of business tax. The Pilot Program initially applied only to transportation industry and “modern service industries” (“Pilot Industries”) in Shanghai and subsequently was expanded to more than ten other provinces and municipalities from August to December 2012. As a result, technical and consulting service, software licensing and course production services provided by Champion Technology and Champion Education Technology and course production services provided by Champion Wangge were no longer subject to 5.6% business tax and related surcharges but VAT and related surcharges instead, from September 1, 2012 and July 1, 2014, respectively. The applicable tax rate of VAT and related surcharges are 3.36% and 6.72% for a small-scale taxpayer and a general taxpayer, respectively.

Champion Technology is a VAT general taxpayer. Champion Education Technology was a VAT small-scale taxpayer but has been treated as a general taxpayer since February 1, 2014. Champion Wangge was qualified as a small-scale taxpayer from July 1, 2014. We are required to remit the VAT we collected to the tax authority. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in the line item of accrued expenses and other current liabilities on the consolidated balance sheets.

In addition, in accordance with the relevant tax laws in the PRC, VAT is also calculated based on the sales value of books and reference materials and is payable by the purchaser. Revenues are recognized net of all VAT imposed by governmental authorities and collected from customers concurrent with revenue generated transactions. Pursuant to a circular jointly issued by MOF and SAT on December 25, 2013, the proceeds received from customers for sales related to books and reference materials are exempt from VAT from January 1, 2013 through December 31, 2017. As a result, Beijing Champion started to enjoy this tax exemption from March 2014 upon the filing of tax exemption application to the state tax bureau. VAT related to sales of our books and reference materials amounted to approximately \$0.6 million, \$1.0 million and \$0.5 million for the fiscal years ended September 30, 2012, 2013 and 2014, respectively.

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 judgment. When reviewing our consolidated financial statements, you should take into account:

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

See Note 2 to our audited consolidated financial statements included in this annual report for additional information regarding our significant accounting policies.

Revenue Recognition

We recognize revenues from our services and sales of products when the following four criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the service has been rendered, (iii) the fees are fixed or determinable, and (iv) collectability is reasonably assured.

Online education services. We generate most of our revenues from online education services provided to course participants pursuant to two types of revenue models — a non-refundable course model and a refundable course model.

The online courses using the non-refundable course model are mainly comprised of regular classes and premium classes. The revenues for the regular classes are recognized on a straight line basis over the subscription period from the month in which the course participant enrolls in the course to the month in which subscribed course terminates. For premium classes, if the course participant fails to pass the course examination and certain pre-agreed conditions are met, the participant can retake the same premium course by paying us discounted course fees for the following year or years. As such, the discount is proportionately applied as a deduction to revenue recognized for each of the premium classes that the course participants take.

For online courses using the refundable course model (*i.e.* elite classes), if the course participant completes the course and fails the professional exam and his or her score is within the range provided for in the agreement, the course participant is entitled to either a full refund or the right to retake the course. The participant must notify us within a pre-agreed period after the professional examinations scores are released in order to be eligible for the refund or the right to retake the course. Proceeds from the refundable course model are initially recorded as “refundable fees.” Revenues are recognized upon the expiration of the course participants’ right to receive a refund or ratably over the course period if the participant decides to retake the course before the expiration of such right.

We offer volume discounts to our regional distributors for purchases over a specified amount of prepaid cards during a specified period of time, generally one year. The after-discount prices of the study cards paid by the regional distributors to us are recognized as deferred revenue. Because we cannot reasonably estimate the amount of future rebates relating to these volume discounts, we record a deferred revenue balance for the maximum potential amount of the volume discount. If the number of purchases specified in the volume discount provisions is not reached upon the expiration of the volume discount period, we then either recognize the deferred revenue relating to such volume discount for each study card over the remaining period that the online course is available to users who enroll using the study card or immediately if the related online course has been completed. Additionally, we recognize proceeds allocated to the study cards that have never been activated for course enrollment as revenues upon their expiration. We also provide student recruiting services and our online platform to government agencies that conduct continuing education services through our websites. We earn service fees as a percentage of total tuition fees based on the agreements entered into with the government agencies. Service fees received are initially recorded as deferred revenue and are recognized as revenue when course participants complete the stipulated study hours and take their examinations, or on a straight line basis over the subscription period based on terms of the agreements.

We also operate an Online Open Learning Platform, a proprietary education platform that allows other parties to share their educational content or deliver live courses online. After passing our quality control reviews, experts and scholars of various fields can either record their own lectures and post them on our Open Learning Platform website, or deliver real-time audio-video courses. We offer coaching services to these lecturers and deploy a user evaluation system to ensure that these courses meet its quality and effectiveness standards. We pay the experts and scholars a certain percentage of the service fee we received from the end users. Revenues from Open Learning Platform are recognized on gross basis as we are the primary obligor in the arrangement and bear the risks and rewards, including the quality control and the services delivered.

Books and reference materials. We sell books and reference materials to end users directly or through distributors. Revenues relating to such sales are deferred until cash is collected. Inventory costs of products delivered to distributors for which revenues have been deferred are presented as “deferred costs” on the consolidated balance sheets.

We also sell books and reference materials together with study cards, which allows course participants to take a certain number of online courses at no additional charge. These sales are considered arrangements with two deliverables, consisting of the delivery of books and reference materials and the online education services.

As neither vendor-specific objective evidence nor third-party evidence of fair value of the deliverables exist due to the significant variability in the prices charged, we allocate revenues to each deliverable based on their relative selling prices. We determine the best estimate of selling price by applying the same pricing policies and methodologies that would be used to determine the price to sell the deliverable on a standalone basis.

Others. We derive other revenue mainly from provision of offline professional training, courseware production services, platform production services, and others.

The offline professional training mainly includes two businesses: (1) accounting and healthcare professional training for accounting firms and the general public, and (2) the business start-up training service. We recognize revenues for accounting and healthcare professional training when the training courses are provided. For the business start-up training service, the tuition fees of the training participants are subsidized by the government. Since qualified enrollments and the fees to be earned cannot be determined until we have received confirmation from government agencies regarding such figures after the completion of services, we recognize the revenue upon cash receipt or the receipt of confirmation from government agencies, whichever is earlier, when all the other revenue recognition criteria have been met.

We recognize revenues from sales of courseware or platforms, which are designed and developed pursuant to the requests from customers, when the courseware or platforms are accepted by the customers. We have no significant remaining obligation with respect to the courseware or platforms upon the acceptance of the customers.

Long-Lived Assets — Property, Plant and Equipment and Intangible Assets

Judgment is required to determine the estimated useful lives of our long-lived assets. Changes in these estimates and assumptions could materially impact our financial position and results of operations.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss based on the fair value of the assets.

Goodwill

Goodwill represents the cost of an acquired business in excess of the fair value of identifiable tangible and intangible net assets purchased. We assign all the assets and liabilities of an acquired business, including goodwill, to reporting units. As of September 30, 2014, we had two reporting units: online education service and business start-up training service. We perform our goodwill impairment test on September 30th of each year. Impairment is tested using a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill.

If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Estimating fair value is performed by utilizing various valuation techniques.

The following table sets forth the details of goodwill impairment test as of September 30, 2014:

	<u>Online education service</u>	<u>Business start-up training service</u> (in thousands of \$)	<u>Total</u>
Estimated fair value	219,505	3,365	222,870
Carrying value net	77,352	2,198	79,550
Percentage by which the fair value exceed the carrying value	183.8%	53.1%	

Because the fair values of each of the two reporting units exceed their carrying amounts, no second step of goodwill impairment test was performed.

In determining the fair values of our reporting units as of September 30, 2014, we considered the discounted cash flow method, or DCF, of the income approach to be more reliable than other approaches. The discounted cash flow for each reporting unit was projected based on financial forecast developed by management for planning purposes. Cash flows beyond the forecast periods were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends for each reporting unit. Specifically, the income approach valuation included a cash flow discount rate at 17% – 24% and a terminal value growth rate at 3%. Publicly available information regarding our market capitalization was also considered in assessing the reasonableness of the aggregate fair value of all the reporting units estimated using the income approach valuation methodology. Based on the result of goodwill impairment test as of September 30, 2014, no impairment of goodwill was identified for the reporting units of online education service and business start-up training service.

The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by the management. Any changes in key assumptions, including unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in impairment charge.

Income taxes

We follow the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in our income statement in the period that includes the enactment date. We consider current tax laws and our interpretation of them when we make our judgments, assumptions and estimates relative to current provision for income tax. We also assess a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. Such evidence includes our estimates of future taxable income and tax planning strategies. Changes in relevant tax laws, and our judgments, assumptions and estimates relative to current provision for income tax could have resulted in material differences in the amount of income taxes provided in our consolidated financial statements.

Effective October 1, 2007, we adopted the recognition and measurement methods under the authoritative interpretation regarding the accounting and disclosure for uncertainty in tax positions. The guidance requires that we recognize the impact of a tax position in the financial statements if that position is more likely than not of being sustained upon audit by the tax authority, based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is more likely than not of being realized upon ultimate settlement. Based on this assessment, as of September 30, 2012, 2013 and 2014, respectively, we have recognized an approximately \$0.2 million, \$0.2 million and \$0.2 million accrual for unrecognized tax benefits which is included in the account of “accrued expenses and other liabilities”. The final outcome of the tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of statutes of limitation. We recognize, if any, interest related to unrecognized tax benefit in interest expense and penalties in other expenses. Changes in relevant tax laws, and our judgments, assumptions and estimates relative to current provision for income tax could have resulted in material differences in the amount of income taxes provided in our consolidated financial statements.

Uncertainties exist with respect to how PRC’s EIT Law applies to our overall operations, and more specifically, with regard to our tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for PRC enterprise income tax purposes if their place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, among others, occur within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, we do not believe that our legal entities organized outside of the PRC should be treated as residents for the EIT Law’s purposes. If one or more of our legal entities organized outside of the PRC were characterized as PRC tax residents, the impact would adversely affect our results of operation. See “Item 3.D. Key Information — Risk Factors — General Risks Relating to Conducting Business in China — Under China’s EIT Law, we may be classified as a “resident enterprise” of China. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders.”

Allowance for Doubtful Accounts

We regularly evaluate the collectability of our accounts receivable. We maintain allowances for doubtful accounts when we believe there is a risk to the collectability of accounts receivable. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable based on an assessment of specific evidence indicating doubtful collection, historical experience, account balance aging and prevailing economic conditions. Actual collections of the accounts receivable could differ significantly from the original estimates.

Share-based Compensation Expenses

Share-based payment transactions with employees and non-executive directors are measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expense over the requisite service period, with a corresponding addition to paid-in capital. We recognize compensation expense over the vesting term on a straight-line basis with the amount of compensation expense recognized during any period not less than the portion of the grant-date value of the option vested during that period.

Share-based payment transactions with non-employees are measured based on the fair value at the earlier of the commitment date or the date at which the non-employee's performance is complete. We recognize compensation expense using the graded vesting attribution method.

The total incremental compensation expense resulting from the modifications of the exercise price and vesting period of all outstanding share options under the Prior Plan is recognized over the remaining requisite service period for such employees and non-employees, respectively. In addition, the unamortized compensation expense resulting from the cancellation of share options under the New Plan is recognized as an expense upon cancellation.

We estimated the fair value of each option award granted to employees, and non-employees under the Prior Plan and the fair value of each option award granted to non-executive directors and employees under the New Plan using relevant and appropriate Option Pricing Model. We use the quoted market price of our ADS at each measurement date to measure the fair value of nonvested restricted shares we granted to directors. We did not grant additional option award to employees, non-employees and non-executive directors during the years ended September 30, 2012, 2013 and 2014, respectively.

We estimated forfeitures at the time of grant based on our historical experiences and record share-based compensation expenses only for those awards that are expected to vest. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expense to be recognized in future periods.

Consolidation of Variable Interest Entity

We conduct substantially all of our education business through Beijing Champion, our variable interest entity, and its subsidiaries. We have entered into contractual arrangements with Beijing Champion and its shareholders such that Beijing Champion and its subsidiaries are considered variable interest entities for which we are considered their primary beneficiary. We believe that the powers of attorney are valid, binding and enforceable under existing PRC laws and regulations and enable our subsidiary, Champion Technology, to vote on all matters requiring Beijing Champion's shareholder approval. We also believe that the exclusive purchase right contracts provide us with a substantive kick out right. More specifically, we believe that the terms of the exclusive purchase right contracts are currently exercisable and legally enforceable under current PRC laws and regulations, and believe that the minimum amount of consideration permitted by the applicable PRC law to exercise the purchase right does not represent a financial barrier or disincentive for us to currently exercise our rights under the purchase right contract. Our rights under the powers of attorney and the exclusive purchase right contract give us the power to control the shareholders of Beijing Champion and thus the power to direct the activities that most significantly impact the Beijing Champion's economic performance. We believe that our ability to exercise control, together with the service agreements and the equity pledge agreements, give us the rights to receive substantially all of the economic benefits from Beijing Champion and its subsidiaries in consideration for the services provided by Champion Technology. Accordingly, as the primary beneficiary of Beijing Champion and its subsidiaries and in accordance with U.S. GAAP, we consolidate Beijing Champion's financial results, and assets and liabilities in our consolidated financial statements.

As advised by Jingtian & Gongcheng, our PRC counsel, our corporate structure in China complies with all existing PRC laws and regulations. However, our PRC counsel has also advised us that as there is substantial uncertainty regarding the interpretation and application of PRC laws and regulations. As such, we cannot assure you that the PRC government would agree that our corporate structure or any of the above contractual arrangements comply with current or future PRC laws or regulations. PRC laws and regulations governing the validity of these contractual arrangements are uncertain and the relevant governmental authorities may have broad discretion in interpreting these laws and regulations. See "Item 3. Key Information — D. Risk factors — Risks Related to Our Corporate Structure and Restrictions on Industry — We rely on contractual arrangements with our affiliated PRC entity and its shareholders for our China operations, which may not be as effective in providing operating control as direct ownership. If any of Beijing Champion or its shareholders fails to perform its or their 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." and "The shareholders of Beijing Champion may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition."

We are a holding company with no material operations of our own. We conduct substantially all of our operations in China through contractual arrangements with Beijing Champion, our variable interest entity, and its shareholders. See “Item 4. Information on the Company — C. Organizational Structure” for a summary of these contractual arrangements. In the fiscal years ended September 30, 2012, 2013 and 2014, Beijing Champion and its subsidiaries contributed in aggregate 98%, 99% and almost 100%, respectively, of our total net revenues. As of the fiscal years ended September 30, 2013 and 2014, Beijing Champion and its subsidiaries accounted for an aggregate of 68% and 61%, respectively, of our total assets, and 93% and 73%, respectively, of our total liabilities. Our assets not associated with Beijing Champion and its subsidiaries primarily consist of cash.

Recent Accounting Pronouncements

In April, 2014, the FASB issued Accounting Standard Update 2014-08, which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The new guidance eliminates the second and third criteria of discontinued operation in ASC 205-20-45-1 and instead requires discontinued-operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity’s operations or financial results. The ASU also expands the scope of ASC 205-20 to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale.

The ASU also requires entities to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position.

Regarding the statement of cash flows, an entity must disclose, in all periods presented, either (1) operating and investing cash flows or (2) depreciation and amortization, capital expenditures, and significant operating and investing noncash items related to the discontinued operation.

The ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. Early adoption is permitted. We do not expect the adoption of this guidance will have a significant effect on our consolidated financial statements. In May 2014, the FASB issued, ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The guidance substantially converges final standards on revenue recognition between the FASB and the International Accounting Standards Board providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are in the process of evaluating the impact of adoption of this guidance on our consolidated financial statements.

In June 2014, the FASB issued a new pronouncement which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation-Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. We do not expect the adoption of this guidance will have a significant effect on our consolidated financial statements.

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.

	Years Ended September 30,					
	2012		2013		2014	
	\$	% of net revenues	\$	% of net revenues	\$	% of net revenues
	(In thousands, except for percentages)					
Net Revenues						
Online education services	40,281	77.3%	58,573	82.1%	80,545	82.9%
Books and reference materials	4,438	8.5%	5,129	7.2%	6,392	6.6%
Others	7,383	14.2%	7,658	10.7%	10,259	10.5%
Total net revenues	52,102	100.0%	71,360	100.0%	97,196	100.0%
Cost of sales:						
Cost of services	(20,494)	(39.3)%	(27,073)	(37.9)%	(35,187)	(36.2)%
Cost of tangible goods sold	(2,587)	(5.0)%	(2,844)	(4.0)%	(4,616)	(4.8)%
Total cost of sales	(23,081)	(44.3)%	(29,917)	(41.9)%	(39,803)	(41.0)%
Gross profit	29,021	55.7%	41,443	58.1%	57,393	59.0%
Operating expenses:						
Selling expenses	(11,337)	(21.8)%	(15,673)	(22.0)%	(21,445)	(22.1)%
General and administrative expenses	(8,248)	(15.8)%	(9,806)	(13.7)%	(11,645)	(12.0)%
Total operating expenses	(19,585)	(37.6)%	(25,479)	(35.7)%	(33,090)	(34.1)%
Other operating income	58	0.1%	59	0.1%	253	0.3%
Operating income	9,494	18.2%	16,023	22.5%	24,556	25.2%
Interest income	1,119	2.1%	1,415	2.0%	2,964	3.1%
Interest expense	—	—	—	—	(291)	(0.3)%
Exchange income (loss)	(40)	(0.1)%	(77)	(0.1)%	232	0.2%
Income before income taxes	10,573	20.3%	17,361	24.3%	27,461	28.2%
Less: Income tax expense	(2,600)	(5.0)%	(3,797)	(5.3)%	(4,052)	(4.1)%
Net income from continuing operations attributable to China Distance Education Holdings Limited	7,973	15.3%	13,564	19.0%	23,409	24.1%
Net income from discontinued operations attributable to China Distance Education Holdings Limited, net of tax	236	0.5%	—	—	—	—
Net income attributable to China Distance Education Holdings Limited	8,209	15.8%	13,564	19.0%	23,409	24.1%

Fiscal Year Ended September 30, 2014 Compared to Fiscal Year Ended September 30, 2013

Net Revenues

Our net revenues increased by 36.2% to \$97.2 million in the fiscal year ended September 30, 2014 from \$71.4 million in the fiscal year ended September 30, 2013, primarily as a result of growth in sales of our online education services, books and reference materials, and revenue from other sources.

Online education services. Net revenues from online education services increased by 37.5% to \$80.5 million in the fiscal year ended September 30, 2014 from \$58.6 million in the fiscal year ended September 30, 2013. This increase was primarily due to overall growth in the total number of our online course enrollments from 2,650,000 in the fiscal year ended September 30, 2013 to 3,180,000 in the fiscal year ended September 30, 2014, resulting in higher revenue in our accounting, healthcare and engineering & construction courses. Our accounting courses continued to account for the majority of our course enrollments, while enrollments in our healthcare and engineering & construction courses also increased significantly. Of this revenue increase, our accounting courses generated revenues of approximately \$50.0 million in the fiscal year ended September 30, 2014, compared to approximately \$40.0 million in the fiscal year ended September 30, 2013. In addition, our healthcare and engineering & construction courses generated revenues of approximately \$17.1 million and \$7.9 million, respectively, in the fiscal year ended September 30, 2014, compared to \$9.2 million and \$4.6 million, respectively, in the fiscal year ended September 30, 2013.

Books and reference materials. Net revenues from sales of books and reference materials increased by 24.6% to \$6.4 million in the fiscal year ended September 30, 2014 from \$5.1 million in the fiscal year ended September 30, 2013.

Others. Our net revenues from other sources increased by 34.0% to \$10.3 million in the fiscal year ended September 30, 2014 from \$7.7 million in the fiscal year ended September 30, 2013, primarily due to higher revenue from our "Tax School" program, in-person accounting professional training courses, and courseware production services. This increase was partially offset by decreased revenue in our Information Technology Application Training program supplementary services.

Gross Profit

Our gross profit increased by 38.5% to \$57.4 million in the fiscal year ended September 30, 2014 from \$41.4 million in the fiscal year ended September 30, 2013. Our gross margin increased to 59.0% in the fiscal year ended September 30, 2014 from 58.1% in the fiscal year ended September 30, 2013. The increase in gross margin was primarily driven by the scalability of our online education model as revenue growth outpaced overall increases in cost. This increase was partially offset by the significant increase in our server management and bandwidth leasing fees, salaries and related expenses, fees paid to our lecturers due to increase of hourly lecturer fees, costs on books and reference materials due to impairment of obsolete inventories, and rental and related expenses.

Operating Expenses

Our operating expenses increased by 29.9% to \$33.1 million in the fiscal year ended September 30, 2014 from \$25.5 million in the fiscal year ended September 30, 2013 for the reasons explained below.

Selling expenses. Our selling expenses increased by 36.8% to \$21.4 million in the fiscal year ended September 30, 2014 from \$15.7 million in the fiscal year ended September 30, 2013. This increase resulted primarily from increased marketing and promotional activities, increased commissions paid to sales agents due to an increase in the sales of our courses, increased salaries and related expenses for our customer service staff and sales and marketing staff, and increased freight and delivery expenses related to our books and reference materials and promotional materials. As a percentage of our net revenues, however, our selling expenses remained relatively steady at 22.1% of our net revenues in the fiscal year ended September 30, 2014, as compared to 22.0% of our net revenues in the fiscal year ended September 30, 2013.

General and administrative expenses. Our general and administrative expenses increased by 18.8% to \$11.6 million in the fiscal year ended September 30, 2014 from \$9.8 million in the fiscal year ended September 30, 2013. This increase was primarily due to increased salaries and related expenses, and increased rental and related expenses. This increase was partially offset by decreased professional fees and reversal of bad debts provision. As a percentage of our net revenues, however, our general and administrative expenses decreased to 12.0% of our net revenues in the fiscal year ended September 30, 2014 from 13.7% of our net revenues in the fiscal year ended September 30, 2013 due to relatively stable administrative expenses.

Other Operating Income

In the fiscal year ended September 30, 2014, we had other operating income of \$0.3 million which was mainly from cash awards awarded by Zhongguancun Haidian Science Park and subsidies for high and new technology projects from Beijing Science and Technology Committee. In the fiscal year ended September 30, 2013, we had other operating income of \$59,000 which was mainly compensation from a lecturer for breach of service agreement with us.

Income taxes

Income tax expense for the fiscal year ended September 30, 2014 was \$4.1 million, compared with an income tax expense of \$3.8 million in the fiscal year ended September 30, 2013. The increase in income tax expense was mainly due to the increase in taxable income generated from the PRC in fiscal year 2014 compared with fiscal year 2013, the provision of withholding tax applicable to the profits generated by our PRC subsidiaries in fiscal year 2014 that we expect to distribute to our Hong Kong subsidiary. This increase was partially offset by reversal of certain accumulated unpaid income tax expense accrued in earlier fiscal years.

Net Income

As a result of the above factors, our net income was \$23.4 million in the fiscal year ended September 30, 2014, compared to a net income of \$13.6 million in the fiscal year ended September 30, 2013.

Fiscal Year Ended September 30, 2013 Compared to Fiscal Year Ended September 30, 2012

Net Revenues

Our net revenues increased by 37.0% to \$71.4 million in the fiscal year ended September 30, 2013 from \$52.1 million in the fiscal year ended September 30, 2012, primarily as a result of growth in sales of our online education services and books and reference materials.

Online education services. Net revenues from our online education services increased by 45.4% to \$58.6 million in the fiscal year ended September 30, 2013 from \$40.3 million in the fiscal year ended September 30, 2012. This increase was primarily due to overall growth in the total number of our online course enrollments from 2,170,000 in the fiscal year ended September 30, 2012 to 2,650,000 in the fiscal year ended September 30, 2013 and resulting higher revenue in our accounting, healthcare and engineering & construction courses. Our accounting courses continued to account for the majority of our course enrollments, while enrollments in our healthcare and engineering & construction courses also increased significantly. Of this revenue increase, our accounting courses combined generated revenues of approximately \$40.0 million in the fiscal year ended September 30, 2013, compared to approximately \$27.5 million in the fiscal year ended September 30, 2012. In addition, our healthcare and engineering & construction courses generated revenues of approximately \$9.2 million and \$4.6 million, respectively, in the fiscal year ended September 30, 2013, compared to \$6.2 million and \$2.8 million, respectively, in the fiscal year ended September 30, 2012.

Books and reference materials. Net revenues from our sales of books and reference materials increased by 15.6% to \$5.1 million in the fiscal year ended September 30, 2013 from \$4.4 million in the fiscal year ended September 30, 2012.

Others. Our net revenues from other sources increased to \$7.7 million in the fiscal year ended September 30, 2013 from \$7.4 million in the fiscal year ended September 30, 2012, primarily due to higher revenue generated in offline business start-up training courses and offline accounting professional training to the general public. Our growth in revenue from other sources was partially impacted by the decrease in revenue from our courseware production services and primary and secondary school supplementary courses. In addition, with respect to our offline Information Technology Application Training program supplementary services, it has not generated reasonable returns in the past few years, and as a result, we ceased to operate such business in July 2013.

Gross Profit

Our gross profit increased by 42.8% to \$41.4 million in the fiscal year ended September 30, 2013 from \$29.0 million in the fiscal year ended September 30, 2012. Our gross margin increased to 58.1% in the fiscal year ended September 30, 2013 from 55.7% in the fiscal year ended September 30, 2012. The increase in gross margin was primarily driven by the scalability of our online education model as revenue growth outpaced increases in cost, including our server management and bandwidth leasing fees, depreciation and amortization expense, fees paid to our lecturers, and rental and related expenses. This fiscal year's reversal of impairment of deferred costs on books and reference materials also contributed to the increase in gross margin. This increase was partially offset by the significant growth in salaries and related expenses as we significantly increased staff for the expansion of offline accounting professional training to the general public.

Operating Expenses

Our operating expenses increased by 30.1% to \$25.5 million in the fiscal year ended September 30, 2013 from \$19.6 million in the fiscal year ended September 30, 2012 for the reasons explained below.

Selling expenses. Our selling expenses increased by 38.2% to \$15.7 million in the fiscal year ended September 30, 2013 from \$11.3 million in the fiscal year ended September 30, 2012. This increase resulted primarily from increased salaries and related expenses for our customer service staff and sales and marketing staff, increased advertising and promotional activities, and increased commissions paid to agents due to an increase in the sales of our courses. As a percentage of our net revenues, however, our selling expenses remained relatively steady at 22.0% of our net revenues in the fiscal year ended September 30, 2013, as compared to 21.8% of our net revenues in the fiscal year ended September 30, 2012.

General and administrative expenses. Our general and administrative expenses increased by 18.9% to \$9.8 million in the fiscal year ended September 30, 2013 from \$8.2 million in the fiscal year ended September 30, 2012. This increase was primarily due to increased salaries and related expenses, professional fees, and share-based compensation expenses arising from restricted shares awarded to non-executive directors, and cancellation of options granted to non-executive directors and employees on December 2, 2008 and November 17, 2009, respectively, under the New Plan. This increase was partially offset by reversal of bad debts provision. As a percentage of our net revenues, however, our general and administrative expenses decreased to 13.7% of our net revenues in the fiscal year ended September 30, 2013 from 15.8% of our net revenues in the fiscal year ended September 30, 2012 due to relatively stable administrative expenses.

Other Operating Income

In the fiscal year ended September 30, 2013, we had other operating income of \$59,000 which was mainly compensation from a lecturer for breach of service agreement with us. In the fiscal year ended September 30, 2012, we had other operating income of \$58,000 which was mainly compensation from defendants with respect to infringement of our copyrights.

Income taxes

Income tax expense for the fiscal year ended September 30, 2013 was \$3.8 million, compared with an income tax expense of \$2.6 million in the fiscal year ended September 30, 2012. The significant increase in income tax expense was mainly due to the increase in taxable income generated from the PRC in fiscal year 2013 compared with fiscal year 2012, the provision of withholding tax applicable to the profits generated by our PRC subsidiaries in fiscal year 2013 that we expect to distribute to our Hong Kong subsidiary, and the effect of valuation allowance and tax rate change in deferred tax assets with respect to the business start-up training business.

Net Income

As a result of the above factors, our net income was \$13.6 million in the fiscal year ended September 30, 2013, compared to a net income of \$8.2 million in the fiscal year ended September 30, 2012.

B. Liquidity and Capital Resources

Historically, we have financed our operations primarily through cash generated internally. On March 11, 2014, we completed a follow-on public offering of ADSs by us and certain selling shareholders. Through the follow-on public offering we issued and sold 1,500,000 ADSs at the price of \$21.00 per ADS. The net proceeds received by us, after deducting underwriting discounts and commissions and listing expenses payable by us, amounted to approximately \$29.1 million. As of September 30, 2012, 2013 and 2014, we had approximately \$57.7 million, \$72.7 million and \$140.4 million in cash and cash equivalents, including bank term deposits and restricted cash, respectively. As of September 30, 2014, our cash and cash equivalents of \$118.1 million primarily consisted of cash on hand, bank deposits, and AAA rated money market funds which are unrestricted as to withdrawal and use and are deposited with banks or financial institutions in China and Hong Kong. We intend to finance our future working capital requirements and capital expenditures from net cash generated from operating activities, existing cash and cash equivalents. We believe that our working capital is sufficient for our present requirements.

Our PRC subsidiaries and consolidated affiliated entities, in the aggregate, held RMB678.7 million (\$110.6 million) in cash and cash equivalents, bank term deposits and restricted cash, as of September 30, 2014. For information regarding restrictions and potential tax liabilities on profit distribution from these entities, please see “Risk Factors — Risks Relating to Conducting Business in China — PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits”, and “— Restrictions on currency exchange may limit our ability to utilize our revenues effectively and the ability of our PRC subsidiaries to obtain financing.”

Our PRC subsidiaries and our consolidated affiliated entities generally earn their revenues in Renminbi which is not a freely convertible currency. Although our PRC subsidiaries generally may convert Renminbi into foreign currency to pay dividends, our PRC subsidiaries must follow specific procedural requirements which could result in delay or which could change in the future. In addition, each of our PRC subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association and the accounting standards and regulations in the PRC. Pursuant to applicable PRC laws and regulations, 10% of the after-tax profits of each of our PRC subsidiaries are required to be set aside in a statutory surplus reserve fund each year until the reserve balance reaches 50% of such PRC subsidiary's registered capital. Allocations to these statutory reserves may only be used for specific purposes and are not distributable to us in the form of loans, advances or cash dividends. As a result of these PRC restrictions, our PRC subsidiaries and consolidated affiliated entities are restricted in their ability to transfer a portion of their net assets to CDEL Cayman (either in the form of dividends, loans or advances), which restricted portion as calculated under US GAAP amounted to approximately RMB143.6 million (\$23.5 million) and RMB144.7 million (\$23.6 million), respectively, as of September 30, 2013 and September 30, 2014.

We are a holding company incorporated under the laws of the Cayman Islands. We derive a substantial majority of our income from the business operation of our PRC subsidiaries and consolidated affiliated entities in China. Prior to January 1, 2008, dividends derived by foreign enterprises from business operations in China were not subject to the PRC enterprise income tax. However, such tax exemption ceased after January 1, 2008 with the effectiveness of the EIT Law and a withholding tax rate of 10% will apply to such dividends, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Our PRC subsidiaries' earnings generated before 2008 that were available for distribution and were not subject to any PRC dividend withholding taxes amounted to \$6.7 million. We distributed such earnings to CDEL Hong Kong in December 2012. For our PRC subsidiaries' earnings generated after 2008 that were available for distribution, provisions of \$0.6 million, \$0.3 million and \$0.4 million have been made in the fiscal years ended September 30, 2012, 2013 and 2014, respectively, for the PRC dividend withholding taxes with respect to the distribution of these earnings to CDEL Hong Kong. The economic benefits of our PRC consolidated affiliated entity, Beijing Champion, are mainly transferred to our PRC subsidiaries Champion Education Technology and Champion Technology through payment of service fees and licensing fees under the Software License Agreement, Courseware Production Entrustment Agreement, Technical Support and Consultancy Services Agreement and Courseware License Agreement entered into between Beijing Champion, Champion Education Technology and Champion Technology. Such service fees and licensing fees are subject to PRC business tax (or VAT since September 1, 2012) and related surcharges. Upon receipt of such fees, they will become a portion of revenues for Champion Education Technology and Champion Technology and can be remitted to the Cayman Islands holding company in the form of dividend distribution.

We used part of our cash towards a share repurchase program we implemented from November 20, 2008 to April 28, 2014. The program authorized us to repurchase up to \$20 million worth of our issued and outstanding ADSs from time to time in open market transactions on the NYSE (or NYSE Arca, prior to February 4, 2009). For more details, see "Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers." In the fiscal year ended September 30, 2014, we had not repurchased any ADSs on the open market.

The following table summarizes our cash flows in the fiscal years ended September 30, 2012, 2013 and 2014:

	For the Year Ended September 30,		
	2012	2013	2014
	\$	\$	\$
	(In thousands)		
Net cash generated from operating activities	15,063	32,138	44,093
Net cash generated from (used in) investing activities	471	4,506	(24,180)
Net cash generated from (used in) financing activities	(17,168)	(15,659)	26,115
Exchange rate effect on cash and cash equivalents	410	1,211	128
Net increase (decrease) in cash and cash equivalents	(1,224)	22,196	46,156
Cash and cash equivalents at beginning of the year	50,947	49,723	71,919
Cash and cash equivalents at end of the year	<u>49,723</u>	<u>71,919</u>	<u>118,075</u>

CDEL Cayman, our ultimate holding company, may rely on dividends and other distributions on equity paid by our PRC subsidiaries for its cash requirements, but such dividends and other distributions are subject to restrictions under PRC law. See Note 15 to our consolidated financial statements included in this annual report.

Operating activities

Net cash of \$44.1 million generated from operating activities in the fiscal year ended September 30, 2014 was primarily attributable to (i) net income before non-cash items including share-based compensation expenses, depreciation and amortization, provision of obsolete inventories, and reduction in allowance for doubtful accounts, (ii) decrease in accounts receivable of \$2.4 million, (iii) decrease in deferred costs of \$0.6 million, (iv) increase in accrued expenses and other liabilities of \$7.9 million, and (v) increase in deferred revenue and refundable fees of \$7.2 million. The increase in operating cash flow was partially offset by increase in other non-current assets of \$0.6 million.

Net cash of \$32.1 million generated from operating activities in the fiscal year ended September 30, 2013 was primarily attributable to (i) net income before non-cash items including share-based compensation expenses, depreciation and amortization, reversal of impairment on deferred costs, and reversal of allowance for doubtful accounts, (ii) decrease in accounts receivable of \$1.0 million, (iii) increase in accrued expenses and other liabilities of \$5.1 million, (iv) increase in income tax payable of \$1.6 million, and (v) increase in deferred revenue and refundable fees of \$8.0 million. The increase in operating cash flow was partially offset by increase in prepayments and other assets, and other non-current assets of \$0.4 million and \$0.4 million, respectively.

Net cash of \$15.1 million generated from operating activities in the fiscal year ended September 30, 2012 was primarily attributable to (i) net income before non-cash items including share based compensation expenses, depreciation and amortization, allowance for doubtful accounts, deferred tax expenses, and impairment on deferred costs, (ii) decrease in accounts receivable of \$0.4 million, (iii) increase in accrued expenses and other liabilities of \$2.8 million, (iv) increase in income tax payable of \$0.3 million, and (v) increase in deferred revenue and refundable fees of \$1.5 million. The increase in operating cash flow was partially offset by increase in prepayments and other assets, inventories, and other non-current assets of \$0.7 million, \$0.3 million and \$0.3 million, respectively.

Investing activities

Net cash of \$24.2 million used in investing activities in the fiscal year ended September 30, 2014 was primarily attributable to (i) the pledge of \$16.3 million in term deposit placed with a financial institution to secure a RMB100 million (\$16.3 million) term loan facility, (ii) the purchase of term deposits of \$4.9 million, and (iii) capital expenditure of \$2.7 million.

Net cash of \$4.5 million generated from investing activities in the fiscal year ended September 30, 2013 was primarily attributable to release of term deposits of \$7.3 million. The increase in cash flow was partially offset by capital expenditure of \$2.8 million.

Net cash of \$0.5 million generated from investing activities in the fiscal year ended September 30, 2012 was primarily attributable to the release of restricted cash of \$2.7 million as the result of the settlement of Zhengbao Yucai's arbitration in November 2011. The increase in cash flow was partially offset by capital expenditure of \$2.0 million.

Financing activities

Net cash of \$26.1 million generated from financing activities in the fiscal year ended September 30, 2014 was primarily attributable to (i) the net proceeds of \$29.1 million from our follow-on public offering, (ii) a \$16.3 million (RMB100 million) term loan facility from a financial institution, and (iii) repayment of a \$1.2 million loan by optionees in connection with exercise of their options. The increase in cash flow was partially offset by payment of a special dividend of \$20.3 million.

Net cash of \$15.7 million used in financing activities in the fiscal year ended September 30, 2013 was primarily attributable to special dividend payment of \$16.1 million. The decrease in cash flow was partially offset by proceeds from share options exercised of \$0.6 million.

Net cash of \$17.2 million used in financing activities in the fiscal year ended September 30, 2012 was primarily attributable to special dividend payment of \$16.3 million and the repurchase of our ADS from the open market in the amount of \$1.0 million.

Capital Expenditures

We incurred capital expenditures of \$2.7 million, \$2.8 million and \$2.0 million in the fiscal years ended September 30, 2014, 2013 and 2012, respectively. The amount of capital expenditures in the fiscal years ended September 30, 2014, 2013 and 2012 related primarily to our expenditures on property, plant and equipment, and software. From time to time, we may evaluate and make investments, acquisitions or divestments.

We believe that our current cash and cash equivalents, anticipated cash flows from operations and proceeds from our follow-on public offering will be sufficient to meet our anticipated working capital requirements and capital expenditures for 12 months following the date of this annual report. Our online course platform can support significant growth in course enrollments and is easily adapted for the addition of new courses. We do, however, expect to spend money on the further development of our “Chinaacc” and “med66.com” brands and other brands in the disciplines for which we offer courses. 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, for example, our sales performance, ability to control costs and expenses, choice of financing arrangements and mergers and acquisitions. Any changes in the significant factors affecting our revenues from education services may cause material fluctuations in our cash generated from operations. See “Operating Results — Overview — Specific Factors Affecting Our Results of Operations” for a description of these significant factors. Changes in working capital, including any significant shortening or lengthening of our accounts receivable cycle or customer 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 restrict our operations. We cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all.

Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. However, our PRC subsidiaries are required under PRC laws and regulations to allocate a portion of their annual after-tax profits, if any, to certain statutory reserves and funds prior to declaring and remitting dividends. For example, our PRC subsidiaries are required to allocate at least 10% of their after-tax profits to statutory reserves each year until such reserves reach 50% of their respective registered capital. Allocations to these statutory reserves and funds can be used only for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to us. Such limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely affect our ability to grow, make investments or acquisitions, pay dividends, and otherwise fund and conduct our businesses.

Inflation

According to the National Bureau of Statistics of China, the change in China’s Consumer Price Index was 2.6% and 2.6% in the years 2012 and 2013, respectively. In December 2014, the change in China’s Consumer Price Index was 2%. Inflation has had some impact on our operations in recent years, particularly in the form of higher salaries for our lecturers, and employees. For more details, see “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Description of Key Line Items — Cost of Sales, Selling Expenses, and General and Administrative Expenses.” We can provide no assurance that we will not continue to be affected in the future by higher rates of inflation in China, or that we will be able to adjust our fees to mitigate the impact of inflation on our results of operations.

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

Research and development does not constitute a material part of our business and we do not incur any material expenses related to research and development.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended September 30, 2014 that are reasonably likely to have a material adverse effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of September 30, 2014:

	Payment Due by Period					
	Total	Within 1 Year	1-3 Years	3-5 Years	More than 5 Years	Others
Operating lease obligations ⁽¹⁾	3,593	3,389	204	—	—	—
Others ⁽²⁾	177	—	—	—	—	177
Total	3,770	3,389	204	—	—	177

- (1) Our operating lease obligations primarily relate to our leased servers and bandwidth as well as our leased offices and staff quarters in China, Hong Kong and United States. The office and staff quarter leases expire at different times over the period from the date of this annual report through 2017, and will become subject to renewal. We will evaluate the need to renew each office and staff quarter lease on a case-by-case basis prior to its expiration.
- (2) Liabilities for unrecognized tax benefits. The balance disclosed under “Others” represents liabilities for which reasonable estimates about the timing of the payment cannot be made.

Indebtedness

On December 6, 2013, CDEL Hong Kong entered into a loan agreement with Deutsche Bank, AG, Singapore Branch, for a RMB100 million (\$16.3 million) term loan facility with a 2.4% annual interest rate for a term of 18 months. The facility was secured by a term deposit of RMB100 million provided by Champion Technology.

G. Safe Harbor

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth certain information relating to our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is 18th Floor, Xueyuan International Tower, 1 Zhichun Road, Haidian District, Beijing 100083, the People’s Republic of China.

Name	Age	Position
Zhengdong Zhu	46	Chairman of the Board of Directors, Chief Executive Officer
Baohong Yin	47	Deputy Chairman of the Board of Directors
Hongfeng Sun	48	Vice President, Director
Xiaoshu Chen	51	Independent Director
Annabelle Yu Long	41	Independent Director
Liankui Hu	64	Independent Director
Carol Yu	52	Independent Director
Ping Wei	44	Chief Financial Officer

Zhengdong Zhu is co-founder, chairman of the board and chief executive officer of our company and is responsible for the overall management operations and strategic direction of our company. Prior to co-founding our company in 1998, Mr. Zhu worked at the Beijing Huake Hi-Tech Co., Ltd., a communications products and computer facilities company, as an engineer, manager of network department and vice general manager in charge of marketing and sales from 1995 to 1998. From 1989 to 1995, Mr. Zhu worked as an engineer in the area of electronic communications technology at the research department of North China Institute of Electro-Optics Technology. Mr. Zhu graduated from the Radio Engineering Department of the Southeast University in China with a bachelor’s degree in radio engineering in 1989, and obtained a graduate certificate from the management science department in Sichuan University in China in 2001. Mr. Zhu received his MBA degree from Tsinghua University in 2011. Mr. Zhu and Ms. Baohong Yin, our director and deputy chairman, are husband and wife.

Baohong Yin is co-founder, director and deputy chairman of our company. From 1989 to 2004, Ms. Yin worked as engineer, vice director of laboratory, senior engineer, director of laboratory and vice-general engineer at Beijing Uni-Construction Dadi Concrete Building Components Co., Ltd (previously known as Beijing Residential Construction Component Manufacturer). Ms. Yin graduated in 1989 from the Civil Engineering Department of Southeast University in China with a bachelor's degree in civil engineering. She was also conferred the qualification as a senior engineer by the Beijing Advanced Specialized Technology Committee in 1999. Ms. Yin received her EMBA degree from Beijing University in 2010. Ms. Yin and Mr. Zhengdong Zhu, our chairman and chief executive officer, are wife and husband.

Hongfeng Sun is co-founder, director and vice president of our company. Prior to co-founding our company, he worked at Sichuan Champion Hi-Tech Co., Ltd., a company in Sichuan, China engaging in system integration. From 1991 to 1998, Mr. Sun worked as an assistant general manager in charge of market development at Nanjing Bada Computer System Co., Ltd. From 1989 to 1991, Mr. Sun worked at Port Authority of Nanjing as a system engineer. Mr. Sun received his bachelor's degree in radio engineering from the Radio Engineering Department of Southeast University in China in 1989 and his MBA degree from China Europe International Business School in 2012.

Xiaoshu Chen is an independent director of our company, and currently a professor and an assistant director at the Department of Radio Engineering of SISE Southeast University in China. From 1985 to 2001, Professor Chen worked as an assistant lecturer, lecturer and assistant professor at the same department. Professor Chen has almost 20 years of experience in communication systems and network research. He graduated in 1985 from the Department of Radio Engineering of the Nanjing Institute of Technology in China with a bachelor's degree in engineering. He obtained his master's degree in engineering in 1990 from the same university.

Annabelle Yu Long is an independent director of our company. She is a member of Bertelsmann Group Management Committee, Chief Executive Officer of Bertelsmann China Corporate Center and Managing Director of Bertelsmann Asia Investments, an strategic investment arm of Bertelsmann SE & Co. KGaA. In addition, she has served as a board member of BMG Right Management Germany GmbH. From 2005 to 2007, Ms. Long was a principal of Bertelsmann Digital Media Investments. Ms. Long received her bachelor's degree in science and electric engineering from the University of Electronic Science and Technology in China in 1994, and her MBA from Stanford Graduate School of Business in 2005.

Liankui Hu is an independent director of our company. He has also served as chairman on the boards of directors of the following technology companies since 1998, Beijing Teamsun Technology Co., Ltd., and Beijing Huasun Mingtian Technology Co. Ltd. From 1987 to 1998, Mr. Hu had worked for the Sixth Electronics Institute of the Ministry of Information Industry as deputy president, for Beijing Shenyang System Co., Ltd. as general manager, and for Beijing Huasun Computer Co., Ltd. as general manager. He was a lecturer in School of Economics and Management, Tsinghua University in China from 1985 to 1987. Mr. Hu received his bachelor's degree in engineering from Radio Engineering Department of Tsinghua University in 1982, and his master's degree from School of Economics and Management of Tsinghua University in 1985.

Carol Yu is an independent director of our company. In 2004, Ms. Yu joined the Sohu.com Inc, an internet company listed on Nasdaq, and is now Sohu's President and Chief Financial Officer as well as Co-Chief Executive Officer of Changyou.com Limited, Sohu's Nasdaq-listed gaming subsidiary. Prior to joining Sohu, Ms. Yu worked at Donaldson Lufkin & Jenrette Securities Corporation and Arthur Andersen & Co. Ms. Yu obtained her bachelor's degree in accounting from The Hong Kong Polytechnic University.

Ping Wei is our chief financial officer. Ms. Wei has extensive international finance, accounting and audit experience. From 2005 to 2008, Ms. Wei worked with New Oriental Education and Technology Group (NYSE: EDU) as its director of finance and controller. In 2004, Ms. Wei was the head for New Oriental's North American operation. Prior to that, Ms. Wei worked with Lorus Therapeutics Inc., or Lorus, a Canadian biopharmaceutical company listed on both the Toronto Stock Exchange and the American Stock Exchange as its acting chief financial officer and controller and previously as its assistant controller. Prior to working at Lorus, Ms. Wei worked as an auditor for seven years with Deloitte & Touche in Toronto and Arthur Andersen in Beijing. Ms. Wei is a Canadian Chartered Accountant and a US Certified Public Accountant with the State of Illinois. Ms. Wei received her bachelor's degree in international accounting from the Central University of Finance and Banking in Beijing in 1993.

B. Compensation

Compensation of Directors and Executive Officers

For the fiscal year ended September 30, 2014, we and our subsidiaries paid aggregate cash compensation of approximately \$0.7 million to our directors and executive officers as a group. 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 Options, Restricted Shares and Share Incentive Plans

We adopted our Share Incentive Plan, or the Prior Plan, on April 18, 2008. We adopted on July 2, 2008, and amended and restated on February 16, 2009 and May 21, 2012, respectively, our 2008 Performance Incentive Plan, or the New Plan. Our 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, lecturers and other eligible persons. An aggregate of 11,652,556 ordinary shares are reserved for issuance under the Prior Plan. Subject to any amendment of the New Plan, the maximum number of ordinary shares that may be issued pursuant to the New Plan is 17,944,379 ordinary shares as of September 30, 2014, plus an automatic annual increase on October 1 of each calendar year commencing from October 1, 2014, by an amount equal to the lesser of (i) 2% of the total number of ordinary shares issued and outstanding on September 30 of the same calendar year, (ii) 2,850,000 ordinary shares, or (iii) such number of ordinary shares as may be determined by our board of directors.

Under the Prior Plan, we had granted options for the purchase of a total of 11,045,500 ordinary shares to selected officers, employees, and lecturers as of September 30, 2014. Pursuant to the New Plan, we had granted options for the purchase of a total of 3,162,500 ordinary shares and issued 507,143 restricted shares to five non-executive directors and selected employees as of September 30, 2014. As of December 31, 2014, there were outstanding options to purchase 3,411,700 ordinary shares, out of which options to purchase approximately 520,000 ordinary shares have vested under their current terms. We expect to recognize share-based compensation expenses for the remaining vesting period of the outstanding options and restricted shares, which may continue to impact our future results of operations. During the fiscal years of September 30, 2012, 2013 and 2014, we recognized share-based compensation expenses of \$0.1 million, \$0.6 million and \$0.5 million, respectively.

On September 27, 2011, we determined to provide three-year interest free, full recourse loans to employees and lecturers to exercise their options. On August 13, 2014, we determined to extend part of the loan due on December 4, 2014 for an additional three years to December 4, 2017. As of September 30, 2014, 7,444,668 options had been exercised using this facility, amounting to a total loan amount of \$4.9 million. The outstanding balance of the loan was \$3.3 million as of September 30, 2014.

On May 21, 2013, we cancelled 400,000 and 720,900 share options granted to our non-executive directors and employees on December 2, 2008 and November 17, 2009, respectively, under the New Plan.

On November 20, 2013 and on November 18, 2014, we declared a cash dividend of \$0.15 and \$0.20 per ordinary share on our outstanding shares to shareholders of record as of the close of trading on January 8, 2014 and January 6, 2015, respectively, and reduced the exercise price of all our outstanding options under our Prior Plan and New Plan by the same amount per share accordingly.

On November 18, 2014, we granted 2,800,000 options to employees at an exercise price of \$3.7425 per share under the New Plan, which equaled the per share value of our ADS on the NYSE at the close of trading on November 18, 2014. The vesting term of the options granted to employees is a four-year period, with four equal annual installments.

On January 12, 2015, we issued 542,372 restricted ordinary shares to an employee under the New Plan. The vesting term of the restricted ordinary shares is a four-year period, with 25% vesting on the first anniversary of the issue date and the remaining 75% vesting in six substantially equal semi-annual installments.

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. 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 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. Generally, all unvested options granted under the Plan become fully vested immediately upon a change in the control of our company.

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, both Prior Plan and the New Plan will terminate in 2018.

The table below sets forth the restricted shares issued to our directors and executive officers pursuant to our share incentive plans:

<u>Name of Recipient</u>	<u>Type of Incentive Securities</u>	<u>Number of Ordinary Shares Issued or to be Issued</u>	<u>Exercise Price per Ordinary Share</u>	<u>Date of Grant or Issue</u>	<u>Vesting Start Date</u>	<u>Date of Expiration</u>
Carol Yu	restricted ordinary shares	20,000 ordinary shares	not applicable	December 3, 2012	not applicable	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2012	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2013	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2014	restriction removed on the first anniversary of the issue date	not applicable
Baohong Yin	restricted ordinary shares	20,000 ordinary shares	not applicable	December 3, 2012	not applicable	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2012	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2013	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2014	restriction removed on the first anniversary of the issue date	not applicable
Xiaoshu Chen	restricted ordinary shares	20,000 ordinary shares	not applicable	December 3, 2012	not applicable	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2012	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2013	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2014	restriction removed on the first anniversary of the issue date	not applicable

<u>Name of Recipient</u>	<u>Type of Incentive Securities</u>	<u>Number of Ordinary Shares Issued or to be Issued</u>	<u>Exercise Price per Ordinary Share</u>	<u>Date of Grant or Issue</u>	<u>Vesting Start Date</u>	<u>Date of Expiration</u>
Annabelle Yu Long	restricted ordinary shares	20,000 ordinary shares	not applicable	December 3, 2012	not applicable	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2012	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2013	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2014	restriction removed on the first anniversary of the issue date	not applicable
Liankui Hu	restricted ordinary shares	20,000 ordinary shares	not applicable	December 3, 2012	not applicable	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2012	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2013	restriction removed on the first anniversary of the issue date	not applicable
	restricted ordinary shares	25,000 ordinary shares	not applicable	December 3, 2014	restriction removed on the first anniversary of the issue date	not applicable

C. Board Practices

Duties of Directors

Under Cayman Islands law, our directors have a statutory duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our second amended and restated memorandum of association 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' meetings and reporting its work to shareholders at such meetings;
- implementing shareholders' resolutions;
- determining our business plans and investment proposals;
- formulating our profit distribution plans and loss recovery plans;
- determining our debt and finance policies and proposals for the increase or decrease in our registered capital and the issuance of debentures;
- formulating our major acquisition and disposition plans, and plans for merger, division or dissolution;
- proposing amendments to our second amended and restated memorandum of association and articles of association; and
- exercising any other powers conferred by the shareholders' meetings or under our second amended and restated memorandum of association and articles of association.

Terms of Executive Officers

All of our executive officers are appointed by and serve at the discretion of our board of directors.

Terms of Directors

We currently have a board of seven directors divided into class A, class B and class C directors. Mr. Hongfeng Sun is the class A director. The class B directors are Ms. Baohong Yin, Ms. Annabelle Yu Long and Mr. Xiaoshu Chen. The class C directors are Mr. Zhengdong Zhu, Ms. Carol Yu and Mr. Liankui Hu. One third of the directors (or, if their number is not a multiple of three (3), the number nearest to but not greater than one third) will retire from office and stand for election every year at our annual general meeting of shareholders on a rotating basis. At our 2014 annual general meeting, Ms. Carol Yu and Mr. Liankui Hu, our class C directors were re-elected as class C directors. Our chief executive officer, which currently is Mr. Zhengdong Zhu, is not, while holding office, subject to retirement or be taken into account in determining the number of directors to retire in any year. There are no director service contracts with us or any of our subsidiaries and affiliated entities providing for benefits upon termination of employment.

Board Practices

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

Audit Committee

Our audit committee consists of Ms. Carol Yu, Mr. Liankui Hu and Mr. Xiaoshu Chen. Ms. Carol Yu is the chairman of our audit committee. Our board of directors has determined that all of our audit committee members satisfy the "independence" requirements of relevant rules of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934. Ms. Carol Yu meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC.

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;
- 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 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 management regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditor and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee consists of Mr. Zhengdong Zhu, Ms. Carol Yu and Mr. Liankui Hu. Mr. Zhengdong Zhu is the chairman of our compensation committee. Under Section 303A.00 of the NYSE's Listed Company Manual, a foreign private issuer is permitted to follow "home country practice" in relation to the composition of its compensation 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 compensation committee be independent directors. Our board of directors has determined that Ms. Carol Yu and Mr. Liankui Hu satisfy the "independence" requirements of relevant rules of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our chairman and chief executive officer, Mr. Zhengdong Zhu, does not meet the definition of independence under such applicable rules.

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.

Nomination Committee

Our nomination committee consists of Mr. Zhengdong Zhu, Mr. Liankui Hu and Mr. Xiaoshu Chen. Mr. Zhengdong Zhu is the chairman of the nomination committee. Under the relevant NYSE rules, a foreign private issuer is permitted to follow “home country practice” in relation to the composition of its nomination 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 nomination committee be independent directors. Our board of directors has determined that Mr. Liankui Hu and Mr. Xiaoshu Chen satisfy the “independence” requirements of the relevant rules of the NYSE and Rule10A-3 under the Exchange Act. Our chairman and chief executive officer, Mr. Zhengdong Zhu, does not meet the definition of independence under such applicable rules.

Our nomination 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 have made our code of ethics and our code of conduct publicly available on our website. In addition, our board of directors has adopted a set of corporate governance guidelines. The guidelines reflect certain guiding principles with respect to our board’s structure, procedures and committees. The guidelines are not intended to change or interpret any law, or our second amended and restated memorandum of association and articles of association.

Interested Transactions

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

D. Employees

We had 859, 1,118 and 1,309 full-time employees as of September 30, 2012, 2013 and 2014, respectively. In addition to the above full-time employees, we had 66 part-time employees as of September 30, 2014, of whom 56 are tutors.

As required by PRC regulations, our full-time employees in the PRC participate in a government mandated employee benefits plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to our employees. PRC labor regulations require that our PRC subsidiaries and affiliated entities make contributions to the government for these benefits based on certain percentages of the employees’ salaries. We have no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits, which were expensed as incurred, were approximately \$3.2 million, \$3.9 million and \$5.3 million for the fiscal years ended September 30, 2012, 2013 and 2014, respectively.

We recognize as expenses obligations for contributions to employee benefits plans for full-time employees in Hong Kong, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The total amount for our Hong Kong employee benefits was approximately \$2,000, \$2,000 and \$2,400 for the fiscal years ended September 30, 2012, 2013 and 2014, respectively.

We recognize as expenses obligations for contributions to employee benefits plans for employees in United States. The total amount for our United States employee benefits was approximately \$nil, \$nil and \$5,100 for the fiscal years ended September 30, 2012, 2013 and 2014, respectively.

We believe that we maintain a good working relationship with our employees and we have not experienced significant labor disputes. Our employees have not entered into any collective bargaining agreements.

We view staff training as essential for the development of our human resources and our growth. We aim to provide our staff at all levels with the skills and knowledge relevant to their jobs and their career development as well as to improve their work efficiency. We have both routine and developmental training programs for our staff. Routine training includes our orientation program for new employees and on-the-job training. Developmental training is geared towards staff promotion and providing updated or new course information.

Our staff training is mainly conducted in-house. From time to time, we also engage external trainers with the relevant expertise to train our staff in areas such as customer service and software development.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares as of January 14, 2015, the latest practicable date by:

- our directors and executive officers as a group;
- each person known to us to own beneficially more than 5% of our ordinary shares;

	Ordinary Shares Beneficially Owned	
	Number ⁽¹⁾	Percent ⁽²⁾
Directors and Executive Officers:		
Zhengdong Zhu ⁽³⁾	62,649,481	43.4%
Baohong Yin ⁽⁴⁾	62,649,481	43.4%
Xiaoshu Chen ⁽⁵⁾	2,069,800	1.4%
Ping Wei	*	*
Hongfeng Sun	*	*
Annabelle Yu Long	*	*
Liankui Hu	*	*
Carol Yu	*	*
Directors and Executive Officers Combined	66,717,043	46.1%
Principal Shareholders:		
Champion Education Holdings Limited ⁽⁶⁾	46,396,800	32.1%
Champion Shine Trading Limited ⁽⁷⁾	16,082,681	11.1%
YM Investment Limited, Managecorp Limited and Ms. Veronica Lam Lai Ming ⁽⁸⁾	17,678,248	12.2%

* Beneficially owns less than 1% of our outstanding ordinary shares.

(1) The number of ordinary shares beneficially owned by each of the listed persons includes ordinary shares that such person has the right to acquire within 60 days after January 14, 2015.

(2) Percentage of beneficial ownership for each of the persons listed above is determined by dividing (i) the number of ordinary shares beneficially owned by such person by (ii) the total number of ordinary shares outstanding, plus the number of ordinary shares such person has the right to acquire within 60 days after January 14, 2015. The total number of ordinary shares outstanding as of January 14, 2015 is 144,348,785.

(3) Includes (i) 8,537,265 ordinary shares and 1,886,354 ADSs representing 7,545,416 ordinary shares held by Champion Shine Trading Limited, (ii) 46,396,800 ordinary shares held by Champion Education Holdings Limited, (iii) 90,000 ordinary shares held by Baohong Yin, and (iv) 20,000 ADSs, representing 80,000 ordinary shares, held by Baohong Yin. Champion Shine Trading Limited is a British Virgin Islands company whose sole shareholder is Zhengdong Zhu. Champion Education Holdings Limited is a British Virgin Islands company, with Zhengdong Zhu holding 80% of its equity interest and Baohong Yin holding 20% of its equity interest. Zhengdong Zhu and Baohong Yin are husband and wife. Therefore, Zhengdong Zhu may be deemed to share the voting and dispositive power over the ordinary shares held by Baohong Yin. Zhengdong Zhu disclaims beneficial ownership of the 46,396,800 ordinary shares held by Champion Education Holdings Limited, the 90,000 ordinary shares held by Baohong Yin and the 20,000 ADSs, representing 80,000 ordinary shares, held by Baohong Yin, in each case except to the extent of his pecuniary interest. The business address of Zhengdong Zhu is 18th Floor, Xueyuan International Tower 1, Zhichun Road, Haidian District, Beijing 100083, China.

(4) Includes (i) 8,537,265 ordinary shares and 1,886,354 ADSs representing 7,545,416 ordinary shares held by Champion Shine Trading Limited, (ii) 46,396,800 ordinary shares held by Champion Education Holdings Limited, (iii) 90,000 ordinary shares held by Baohong Yin, and (iv) 80,000 ordinary shares issuable upon exercise of options held by Baohong Yin. Baohong Yin holds 20% of the equity interest in Champion Education Holdings Limited. Zhengdong Zhu holds 80% of the equity interest in Champion Education Holdings Limited and he is the sole shareholder of Champion Shine Trading Limited. Zhengdong Zhu and Baohong Yin are husband and wife. Baohong Yin may therefore be deemed to share the voting and dispositive power over ordinary shares held by Champion Shine Trading Limited, Champion Education Holdings Limited and Zhengdong Zhu. Baohong Yin disclaims beneficial ownership of the 8,537,265 ordinary shares held by Champion Shine Trading Limited, the 1,886,354 ADSs, representing 7,545,416 ordinary shares held by Champion Shine Trading Limited and 46,396,800 ordinary shares held by Champion Education Holdings Limited, in each case except to the extent of her pecuniary interest. The business address of Baohong Yin is 18th Floor, Xueyuan International Tower, 1 Zhichun Road, Haidian District, Beijing 100083, China.

- (5) Includes (i) 1,899,800 ordinary shares held by Jetlong Investments Limited, (ii) 90,000 ordinary shares held by Xiaoshu Chen, and (iii) 80,000 ordinary shares issuable upon exercise of options held by Xiaoshu Chen. Jetlong Investments Limited is a British Virgin Islands company whose sole shareholder and sole director is Xiaoshu Chen. The business address of Xiaoshu Chen is Southeastern University, No. 2 Sipailou, Nanjing 210096, China.
- (6) Includes 46,396,800 ordinary shares held by Champion Education Holdings Limited. Champion Education Holdings Limited is a British Virgin Islands company, with Zhengdong Zhu holding 80% of its equity interest and Baohong Yin holding 20% of its equity interest. The directors of Champion Education Holdings Limited are Zhengdong Zhu and Baohong Yin. The address of Champion Education Holdings Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (7) Includes 8,537,265 ordinary shares and 7,545,416 ordinary shares represented by 1,886,354 ADSs held by Champion Shine Trading Limited, a British Virgin Islands company whose sole shareholder and sole director is Zhengdong Zhu. The address of Champion Shine Trading Limited is Suites 1501-1503, 15th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.
- (8) The number of ordinary shares beneficially owned is as of November 24, 2014 as reported in a Schedule 13D/A filed by Orchid Asia III, L.P., Orchid Asia Co-Investment Limited, OAIH Holdings, L.P., Orchid Asia Group Management, Ltd., Orchid Asia Group, Limited, YM Investment Limited, Managecorp Limited and Ms. Veronica Lam Lai Ming on November 24, 2014. The business address of Orchid Asia III, L.P., Orchid Asia Co-Investment Limited, OAIH Holdings, L.P., Orchid Asia Group Management, Ltd., Orchid Asia Group, Limited, YM Investment Limited reported on the Schedule 13D/A is Suite 6211-12, 62nd Floor, The Center, 99 Queen's Road, Central, Hong Kong. The business address of Managecorp Limited reported on the Schedule 13D/A is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands. The residential address of Ms. Veronica Lam Lai Ming reported on the Schedule 13D/A is Flat A on 43 Floor of South Tower 8, Resident Bel-Air, Island South, 38 Bel-Air Avenue, Hong Kong.

See “— B. Compensation” for more details on restricted shares granted to our directors.

As of September 30, 2014, of the 142,752,873 issued and outstanding ordinary shares, approximately 57.80% of those ordinary shares are held in the U.S., all under one registered holder of record.

None of our existing shareholders has voting rights that differ from the voting rights of other shareholders. A change of control of our company may occur as a result of the transaction that occurred in October 2011 among Bertelsmann Asia Investment AG, CST and CEH. If CST and CEH subsequently default on their obligation under this transaction, BAI may own a significant portion of our company, resulting in a change of control of our company. See below “— E. Share Ownership — Historical Changes in Shareholdings of our Major Shareholders” for more details.

For information on restricted shares granted to our existing shareholders, see “Item 6.B. Director, Senior Management and Employees — Compensation — Share Options, Restricted Shares and Share Incentive Plans.”

Historical Changes in Shareholdings of our Major Shareholders

In October 2011, Bertelsmann Asia Investment AG (“BAI”) sold to CST 16,268,523 shares, of which 1,750,000 ordinary shares are represented by 437,500 ADSs, for US\$28,917,300. The purchase of the shares except the ADS was completed on December 8, 2011 and the purchase of the ADSs was completed on December 9, 2011. This purchase was funded by an interest-free promissory note (the “Note”) in the amount of US\$28,917,300 issued by CST and CEH to BAI on October 26, 2011. The Note was to mature on November 29, 2014. On December 24, 2014, CST, CEH and BAI amended the Note, pursuant to which BAI extended the maturity date of the Note from November 29, 2014 to November 29, 2015, and the Note shall bear interest at the rate of 20% per annum during the extended period starting from November 29, 2014. As collateral for the Note, CST and CEH pledged 2,408,769 and 46,396,800 of their ordinary shares, respectively, or 48,805,569 in total, pursuant to the Deed of Share Charge by and among CST and CEH, on the one hand, and BAI, on the other, dated October 26, 2011, as amended on December 24, 2014 in connection with the amendment of the Note.

In the period from January 1, 2014 until January 14, 2015, Champion Shine Trading Limited sold an aggregate of 1,320,000 ordinary shares as represented by 330,000 ADSs in the open market.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions.

Agreements among us, Beijing Champion and Its Shareholders

See “Item 4.C. Information on the Company — Organizational Structure.”

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated statements and other financial information.

We have appended consolidated financial statements filed as part of this annual report. See “Item 18. Financial Statements.”

Legal Proceedings

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

Dividend Policy

On November 13, 2012, November 20, 2013 and November 18, 2014, our board of directors approved and declared a special cash dividend of \$0.12, \$0.15 and \$0.20 per ordinary share on our outstanding ordinary shares to shareholders of record as of the close of trading on December 7, 2012, January 8, 2014 and January 6, 2015, respectively. Holders of ADSs were accordingly entitled to the cash dividend of \$0.48, \$0.60 and \$0.80 per ADS, respectively.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our subsidiaries in China are required to set aside each year a certain amount of their accumulated after-tax profits, if any, to fund certain statutory reserves. These reserves may not be distributed as cash dividends. Further, if our subsidiaries in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, under the EIT Law, effective as of January 1, 2008, dividends from our PRC subsidiaries to us may be subject to a 10% withholding tax, subject to reduction by an applicable tax treaty with the PRC if they are derived from profits generated after January 1, 2008. For a detailed discussion, see “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Corporate Structure and Restrictions on Our Industry — We may rely principally on dividends and other distributions on equity paid by our PRC subsidiaries for our cash requirements, but such dividends and other distributions are subject to restrictions under PRC law. Limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely affect our ability to grow, make investments or acquisitions, pay dividends, and otherwise fund and conduct our businesses,” “Item 3.D. Key Information — Risk Factors,” “We may not be able to obtain certain treaty benefits on dividends paid to us by our PRC subsidiaries through our Hong Kong Subsidiary,” and “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Description of Key Line Items — Taxation — Enterprise Income Tax.”

Our Board of Directors will, on a yearly basis, consider continuing to pay cash dividends in the future. Any future determination to pay dividends, if any, 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, market conditions 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 ordinary 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.

B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING

A. Offer and listing details.

Price Range of Our ADSs

The following table sets forth the monthly high and low trading prices of our ADSs on the NYSE for the periods indicated:

	<u>High</u>	<u>Low</u>
Annual Highs and Lows		
Fiscal Year 2010	\$ 7.96	\$ 3.04
Fiscal Year 2011	\$ 5.48	\$ 1.85
Fiscal Year 2012	\$ 4.15	\$ 1.80
Fiscal Year 2013	\$11.49	\$ 3.08
Fiscal Year 2014	\$28.75	\$10.66
Quarterly Highs and Lows		
First Fiscal Quarter of 2013	\$ 5.00	\$ 3.08
Second Fiscal Quarter of 2013	\$ 5.40	\$ 3.82
Third Fiscal Quarter of 2013	\$ 8.00	\$ 4.75
Fourth Fiscal Quarter of 2013	\$11.49	\$ 7.01
First Fiscal Quarter of 2014	\$21.15	\$10.66
Second Fiscal Quarter of 2014	\$28.75	\$15.46
Third Fiscal Quarter of 2014	\$20.48	\$13.85
Fourth Fiscal Quarter of 2014	\$17.65	\$13.50
Monthly Highs and Lows		
2014		
August	\$17.65	\$15.32
September	\$16.58	\$13.50
October	\$15.35	\$12.31
November	\$18.78	\$13.75
December	\$18.34	\$16.15
January (through January 20, 2015)	\$16.74	\$14.65

On January 20, 2015, the closing sale price of our ADSs as reported on the NYSE was \$15.41 per ADS.

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A. above.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION**A. Share capital**

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our second amended and restated memorandum of association and articles of association contained in “Description of Share Capital” of our F-1 registration statement (File No. 333-152167) originally filed with the Securities and Exchange Commission on July 7, 2008, as amended.

Differences in Corporate Law

China Distance Education Holdings Limited was incorporated as an exempted company with limited liability in the Cayman Islands in January 2008 under the Companies Law of the Cayman Islands, or the Company Law. Our corporate affairs are governed by our second amended and restated memorandum of association and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands.

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. A merger of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by (a) a special resolution of the shareholders and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose, a subsidiary is a company of which at least ninety percent (90%) of the issued shares entitled to vote are owned by the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissentient shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement 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 has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits. In principle, we will normally be the proper plaintiff 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 second amended and restated memorandum of association and articles of association, subject to any separate requirement for audit committee approval under the applicable rules of the NYSE 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.

C. Material Contracts

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

D. Exchange Controls

Regulation of Foreign Exchange

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

Under current PRC regulations, foreign-invested enterprises such as our PRC subsidiaries are required to apply to SAFE for a Foreign Exchange Registration Certificate for Foreign-Invested Enterprise. With such a certificate, 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.

Regulation of Foreign Exchange Registration of Offshore Investment by PRC Residents

Pursuant to the SAFE Notice on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Round-Trip Investment Conducted by Domestic Residents through Special-Purpose Vehicles, or SAFE Circular 37, which became effective as of July 4, 2014, a PRC Resident, including both PRC domestic institutions and PRC domestic individual residents, shall register with the local branch of SAFE before it establishes or controls a company outside of China with the domestic or overseas assets or equity they legally hold for the purpose of investment and financing and conducting roundtrip investment in China. Such a company located outside of China is referred to as an offshore special purpose vehicle. Under SAFE Circular 37, failure to comply with the registration procedures set forth above may result in the penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

As a Cayman Islands company, we are considered a foreign entity in China. If we purchase the assets or equity interests of a PRC company owned by PRC residents in exchange for our equity interests, such PRC residents will be subject to the registration procedures described in SAFE Circular 37. Moreover, PRC residents who are beneficial holders of our shares are required to register with SAFE in connection with their investment in us.

Dividend Distributions

See "Item 8.A. Financial Information — Dividend Policy" in connection with our policy regarding dividend distributions. See also "Item 3.D. Key Information — Risk Factors — Risks Relating to Our ADS — You may not receive distributions on our ordinary 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."

E. Taxation

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

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 ordinary 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, except for a double tax treaty entered into with the United Kingdom in 2010. 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 CDEL Cayman 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 CDEL Cayman.

The undertaking for CDEL Cayman is for a period of twenty years from January 29, 2008.

People's Republic of China Taxation

In 2007 China passed a new Enterprise Income Tax Law, or the EIT Law, and its implementing rules, both of which became effective on January 1, 2008. The EIT Law created a new "resident enterprise" classification, which, if applied to us, would impose a 10% withholding tax on dividends payable to our non-PRC enterprise shareholders and with respect to gains derived by our non-PRC enterprise shareholders from disposition of our shares or ADSs. The EIT Law and its implementing rules are unclear as to how to determine a PRC "resident enterprise" status for non-Chinese enterprise or enterprise group controlled entities. See "Item 3.D. Key Information — Risk Factors — Under China's EIT Law, we may be classified as a 'resident enterprise' of China. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders."

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

United States Federal Income Taxation

This discussion describes the material U.S. federal income tax consequences to U.S. Holders (as defined below) of the purchase, ownership and disposition of our ADSs or ordinary shares. This discussion does not address any aspect of U.S. federal gift or estate tax, the state, local or non-U.S. tax or the Medicare tax consequences of an investment in our ADSs and ordinary shares. This discussion does not apply to U.S. Holders who 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 certain financial institutions;
- insurance companies;
- tax-exempt organizations;
- partnerships or other entities treated as partnerships or other pass-through entities for U.S. federal income tax purposes or persons holding ADSs or ordinary shares through any such entities;
- regulated investments companies or real estate investment trusts;
- persons that hold ADSs or ordinary shares as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares entitled to vote (including ADSs and ordinary 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, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies on our assumptions regarding the value of our ADSs and ordinary shares and the nature of our business over time. Finally, this discussion is based in part, upon representations of the depository and the assumptions that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

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

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

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

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

Dividends on ADSs and ordinary shares

Subject to the “Passive Foreign Investment Company” discussion below, if we make cash distributions and you are a U.S. Holder, the gross amount of any distributions with respect to your ADSs and ordinary shares (including the amount of any taxes withheld therefrom) will be includible in your gross income on the day you actually or constructively receive such income as dividend income if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. We do not intend to calculate our earnings and profits according to U.S. federal income tax principles. Accordingly, distributions on our ADSs and ordinary shares, if any, will generally be reported to you as dividend distributions for U.S. tax purposes.

Corporations will not be entitled to claim a dividends-received deduction with respect to distributions made by us. Dividends may constitute foreign source passive income for purposes of the U.S. foreign tax credit rules. You should consult your own tax advisors as to your ability, and the various limitations on your ability, to claim foreign tax credits in connection with the receipt of dividends.

Sales and other dispositions of ADSs or ordinary shares

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

Passive foreign investment company

In general, we will be classified as a PFIC in any taxable year if either: (a) the average quarterly value of our gross assets that produce passive income or are held for the production of passive income is at least 50% of the average quarterly value of our total gross assets (the “asset test”) or (b) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties). For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock. For purposes of the asset test: (a) any cash and cash invested in short-term, interest-bearing, debt instruments or bank deposits that are readily convertible into cash will generally count as producing passive income or held for the production of passive income, and (b) the total value of our assets is calculated based on our market capitalization.

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended September 30, 2014. However, the application of the PFIC rules is subject to ambiguity in several respects, and, in addition, PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets and, since the value of our assets is to be determined in large part by reference to the market prices of our ADSs and ordinary shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC in any future taxable year.

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

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

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

If we were a PFIC in any year, as a U.S. Holder, you will generally be required to file an annual return on IRS Form 8621 regarding your ADSs and ordinary shares. If we are or become a PFIC, you should consult with your tax adviser regarding reporting requirements with regard to your ADSs and ordinary shares. If we were a PFIC in any year, you would generally be able to avoid the “excess distribution” rules described above by making a timely “mark-to-market” election with respect to your ADSs provided our ADSs are “marketable.” Our ADSs will be “marketable” as long as they remain regularly traded on a national securities exchange, such as the NYSE. If you made this election in a timely fashion, you would generally recognize as ordinary income or ordinary loss the difference between your adjusted tax basis in the ADSs and their value on the last day of that taxable year. Any ordinary income resulting from this election would generally be taxed at ordinary income rates. Any ordinary losses would be limited to the extent of the net amount of previously included income as a result of the mark-to-market election, if any. Your basis in the ADSs would be adjusted to reflect any such income or loss. You should consult your own tax advisor regarding potential advantages and disadvantages to you of making a “mark-to-market” election with respect to your ADSs. The mark-to-market election will not be available for any lower tier PFIC that is deemed owned pursuant to the attribution rules discussed above.

Alternatively, a U.S. Holder of stock in a PFIC may make a so-called “Qualified Electing Fund” election to avoid the PFIC rules regarding “excess” distribution and gain described above. A U.S. Holder that makes such an election would include in income for a taxable year its pro rata share of the corporation’s income for the taxable year. However, we do not intend to provide you with the information you would need to make or maintain a “Qualified Electing Fund” election and you will, therefore, not be able to make or maintain such an election with respect to your ADSs or ordinary shares.

U.S. information reporting and backup withholding rules

Dividend payments with respect to the ADSs and ordinary shares and the proceeds received on the sale or other disposition of ADSs and ordinary shares may be subject to information reporting to the IRS and to backup withholding (currently imposed at a rate of 28%). Backup withholding will not apply, however, if you (a) are a corporation or come within certain other exempt categories and, when required, can demonstrate that fact or (b) provide a taxpayer identification number, certify as to no loss of exemption from backup withholding and otherwise comply with the applicable backup withholding rules. To establish your status as an exempt person, you will be required to provide certification on IRS Form W-9. Any amounts withheld from payments to you under the backup withholding rules that exceed your U.S. federal income tax liability 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. Certain individuals holding the ADSs or ordinary shares other than in an account at a U.S. financial institution may be subject to additional information reporting requirements.

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display

We previously filed with the Securities and Exchange Commission our registration statement on Form F-1 (as amended) to register our ordinary shares in relation to our initial public offering and our registration statement on Form F-3 (as amended) to register our ordinary shares in relation to a follow-on public offering.

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

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

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

I. Subsidiary Information

For a listing of our subsidiaries, see "Item 4. Information on the Company — C. Organizational Structure."

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to our interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and AAA rated money market funds, as of the date of this annual report. We have not used derivative financial instruments in our investment portfolio. 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

Substantially all of our revenues and expenditures are denominated in Renminbi. As a result, fluctuations in the exchange rate between the U.S. dollars and Renminbi will affect our financial results in U.S. dollars 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 and China's foreign exchange policies. The People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate and achieve certain exchange rate targets, and through such intervention kept the U.S. dollar-Renminbi exchange rate relatively stable within a very narrow range against the U.S. dollar (remaining within 1% of its July 2008 high) for almost two years from July 2008. On June 20, 2010, the People's Bank of China announced that the PRC government would further reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. On March 15, 2014, the People's Bank of China announced that it expanded the daily RMB against U.S. dollar trading band of the inter-bank spot foreign exchange market from 1% to 2% as of March 17, 2014, to allow Renminbi to move more freely and better reflect market supply and demand. However, it remains unclear how this announcement might be implemented. There remains significant international pressure on the PRC government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant change in the value of the Renminbi against the U.S. dollar.

To the extent that we need to convert our U.S. dollar denominated cash balance into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Assuming we had converted the U.S. dollar denominated cash balance of \$29.6 million as of September 30, 2014 into Renminbi at the exchange rate of \$1.00 for RMB6.1380 as of September 30, 2014, this cash balance would have been RMB181.4 million. Assuming a further 1.0% appreciation of the Renminbi against the U.S. dollar, this cash balance would have decreased to RMB179.6 million as of September 30, 2014.

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 PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities.

Not applicable.

B. Warrants and Rights.

Not applicable.

C. Other Securities.

Not applicable.

D. American Depositary Shares.

Fees and Charges Payable by a Holder of American Depositary Receipts

Persons depositing shares are charged a fee for each issuance of ADSs, including issuances resulting from distributions of shares, share dividends, share splits, exercise of rights, bonus and rights distributions and other property, and for each surrender of ADSs in exchange for deposited securities. The fee in each case is US\$5.00 for each 100 ADSs, or any portion thereof, issued or surrendered. The depositary also charges a fee of US\$2.00 per 100 ADSs for distribution of cash proceeds pursuant to a cash distribution, sale of rights and other entitlements or otherwise. The depositary may also charge an annual fee of US\$2.00 per 100 ADSs for the operation and maintenance costs in administering the facility. Persons depositing shares also may be charged the following expenses:

- Expenses incurred by the depositary, the custodian or their respective agents in connection with inspections of the relevant share register maintained by the local registrar and/or performing due diligence on the central securities depository: an annual fee of U.S.\$1.00 per 100 ADSs (such fee to be assessed against holders of record as at the date or dates set by the depositary as it sees fit and collected at the discretion of the depositary, subject to our prior consent, by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions)
- Taxes and other governmental charges incurred by the depositary or the custodian on any ADR or ordinary shares underlying an ADR, including any applicable interest and penalties thereon, and any share transfer or other taxes and other governmental charges
- Cable, telex, electronic transmission and delivery expenses
- Transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities including those of a central depository for securities (where applicable)
- Expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars
- Fees and expenses incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to the shares, deposited securities and ADSs; and
- Any other fees, charges, costs or expenses that may be incurred by the depositary from time to time

In the case of cash distributions, fees are generally deducted from the cash being distributed. Service fees may be collected from holders of ADSs in a manner determined by the depositary with respect to ADSs registered in the name of investors (whether certificated or in book-entry form) and ADSs held in brokerage and custodian accounts (via DTC). In the case of distributions other than cash (i.e., stock dividends, rights, etc.), the depositary charges the applicable ADS record date holder concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or in book-entry form), the depositary sends invoices to the applicable record date ADS holders.

In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary may, if permitted by the settlement systems provided by DTC, collect the fees through such settlement systems (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in such case may in turn charge their clients' accounts the amount of the service fees paid to the depositary.

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

If any tax or other governmental charge is payable by the holders and/or beneficial owners of ADSs to the depositary, the depositary, the custodian or we may withhold or deduct from any distributions made in respect of deposited securities and may sell for the account of the holder and/or beneficial owner any or all of the deposited securities and apply such distributions and sale proceeds in payment of such taxes (including applicable interest and penalties) or charges, with the holder and the beneficial owner thereof remaining fully liable for any deficiency.

Fees and Other Direct and Indirect Payments Made by the Depositary

Since the commencement of our most recent fiscal year, we have received the following direct and indirect payments in the amounts of \$36,000 for expenses incurred by us relating to the ADR program, including:

- Share issuance fee
- Professional fees related to the ADR program
- Training fees related to the ADR program

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

On August 16, 2010, we entered into a restricted issuance agreement with Deutsche Bank Trust Company Americas, as depositary, pursuant to which the depositary may issue restricted American depositary shares upon a deposit of restricted securities by a depositor. Other than the foregoing, the rights of securities holders have not been materially modified.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer has concluded that, as of September 30, 2014, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

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

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

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of September 30, 2014.

Our independent registered public accounting firm has audited our internal control over financial reporting as of September 30, 2014 and has issued an attestation report set forth below.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of China Distance Education Holdings Limited

We have audited the internal control over financial reporting of China Distance Education Holdings Limited (the “Company”), its subsidiaries and its variable interest entity and the subsidiaries of variable interest entity (collectively, the “Group”) as of September 30, 2014, based on criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on the criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), consolidated financial statements as of and for the year ended September 30, 2014 of the Group and our report dated January 26, 2015 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People’s Republic of China
January 26, 2015

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal control over financial reporting during the year ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our audit committee consists of Ms. Carol Yu, Mr. Liankui Hu and Mr. Xiaoshu Chen. Ms. Carol Yu is the chairman of our audit committee. Our board of directors has determined that all of our audit committee members satisfy the “independence” requirements of relevant rules of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934. Ms. Carol Yu meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC.

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP, our principal external auditors, in the fiscal year ended September 30, 2013 and 2014, respectively.

	Fiscal Year ended September 30,			
	2013		2014	
	RMB	US\$	RMB	US\$
Audit fees ⁽¹⁾	3,299,158	539,078	2,907,081	476,555
Audit-related fees ⁽²⁾	1,841,642	300,922	3,650,634	598,445
Tax fees ⁽³⁾	194,200	31,730	—	—

- (1) “Audit fees” means the aggregate fees billed or payable for professional services rendered by our independent auditors in connection with the audit of our consolidated financial statements or the review of our interim consolidated financial statements required for statutory or regulatory filings.
- (2) “Audit-related fees” means the aggregate fees billed or payable for professional services rendered by our independent auditors in connection with the review of our interim consolidated financial statements not required for statutory or regulatory filings and our follow-on public offering.
- (3) “Tax fees” means the aggregate fees billed or payable for tax compliance services, transfer pricing and requests for rulings or technical advice from taxing authorities and tax planning services.

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

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

None.

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

On November 20, 2008, we adopted and publicly announced a share repurchase program approved by our board of directors. The program originally authorized us to repurchase up to \$10 million worth of our issued and outstanding ADSs from time to time in open market transactions on the NYSE (or NYSE Arca, prior to February 4, 2009). Our board of directors subsequently raised the repurchase quota on April 29, 2011 by additional \$10 million of our ADSs (which makes the total repurchase quota under the share repurchase program \$20 million ADSs). The share repurchase program was extended in November 2009, November 2010, April 2011, February 2012 and February 20, 2013, each time for an additional 12-months. The share repurchase program expired on April 28, 2014.

The repurchases were made at prevailing market prices, in negotiated transactions off the market, in block trades, pursuant to Rule 10b-18 of the Exchange Act and a 10b5-1 plan (the 10b5-1 plan allows us to repurchase our ADSs during periods in which we may be in possession of material non-public information) or otherwise. Since the adoption of the share repurchase program on November 20, 2008, we had repurchased 3,937,238 ADSs on the open market. In the fiscal year ended September 30, 2014, we had not repurchased any ADSs on the open market.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

As a foreign private issuer with ADSs listed on the NYSE we are subject to corporate governance requirements imposed by the NYSE. Under Section 303A of the NYSE Listed Company Manual, in general NYSE-listed non-U.S. companies may follow their home-country corporate governance practices in lieu of some of the NYSE corporate governance requirements. We are committed to a high standard of corporate governance. As such, we strive to comply with most of the NYSE corporate governance practices. However, the following are the ways in which our current corporate governance practices differ from NYSE corporate governance requirements because the laws of Cayman Islands do not require such compliance:

- We are not required to obtain shareholder approval for the adoption of, or material revisions to, our equity-compensation plans where our directors consider it in the best interests of the company to do so and when the issue price of shares issued pursuant to such plans is otherwise fair.
- Our compensation committee of our board of directors is not comprised entirely of independent directors.
- Our nomination committee of our board of directors is not comprised entirely of independent directors.

We may determine to voluntarily comply with one or more of the foregoing provisions as required by the NYSE Listed Company Manual.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III**ITEM 17. FINANCIAL STATEMENTS**

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

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

Index to Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
1.1	—Form of Second Amended and Restated Memorandum of Association and Articles of Association of the Registrant*
2.1	—Form of Ordinary Share Certificate.*
2.2	—Form of Deposit Agreement between the Registrant and Deutsche Bank Trust Company Americas, as depositary. ⁽¹⁾
2.3	—Form of American depositary receipt evidencing American depositary shares (included in Exhibit 2.2). ⁽¹⁾
2.4	—Restricted Issuance Agreement between the Registrant and Deutsche Bank Trust Company Americas, as depositary, dated August 16, 2010.***
4.1	—Technical Support and Consultancy Services Agreement between Beijing Champion Distance Education Technology Co., Ltd. and Beijing Champion Hi-Tech Co., Ltd., dated May 1, 2004.*
4.2	—Equity Pledge Agreement between Beijing Champion Distance Education Technology Co., Ltd and Zhengdong Zhu, dated May 1, 2004.*
4.3	—Equity Pledge Agreement between Beijing Champion Distance Education Technology Co., Ltd. and Baohong Yin, dated May 1, 2004.*
4.4	—Exclusive Purchase Rights Agreement among China Distance Education Limited, Beijing Champion Hi-Tech Co., Ltd. and Zhengdong Zhu, dated May 9, 2004.*
4.5	—Exclusive Purchase Rights Agreement among China Distance Education Limited, Beijing Champion Hi-Tech Co., Ltd. and Baohong Yin, dated May 9, 2004.*
4.6	—Courseware License Agreement between Beijing Champion Hi-Tech Co., Ltd. and Beijing Champion Distance Education Technology Co., Ltd., dated August 1, 2004.*
4.7	—Software License Agreement between Beijing Champion Education Technology Co., Ltd. and Beijing Champion Hi-Tech Co., Ltd., dated May 20, 2007.*
4.8	—Courseware Production Entrustment Agreement between Beijing Champion Education Technology Co., Ltd. and Beijing Champion Hi-Tech Co., Ltd., dated May 20, 2007.*
4.9	—Letter of Undertaking from Beijing Champion Distance Education Technology Co., Ltd. to Beijing Champion Hi-Tech Co., Ltd., dated February 13, 2008.*
4.10	—Letter of Undertaking from Zhengdong Zhu and Baohong Yin to Beijing Champion Distance Education Technology Co., Ltd., dated February 13, 2008.*
4.11	—Declaration Letter by Zhengdong Zhu, dated March 24, 2008.*
4.12	—Declaration Letter by Baohong Yin, dated March 24, 2008.*
4.13	—Power of Attorney by Zhengdong Zhu, dated March 25, 2008.*
4.14	—Power of Attorney by Baohong Yin, dated March 25, 2008.*
4.15	—Notice from Beijing Champion Distance Education Technology Co., Ltd. to Beijing Champion Hi-Tech Co., Ltd., Zhengdong Zhu and Baohong Yin, dated March 25, 2008.*
4.16	—Acknowledgement Letter from Zhengdong Zhu and Baohong Yin to the Registrant, dated March 25, 2008.*
4.17	—Acknowledgement Letter from Zhengdong Zhu and Baohong Yin to Beijing Champion Distance Education Technology Co., Ltd., dated March 25, 2008.*
4.19	—Form confidentiality and non-competition agreement.*
4.20	—Incentive share plan.*

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
4.21	—2008 Performance Incentive Plan.*
4.22	—Amended and Restated 2008 Performance Incentive Plan (dated February 16, 2009).**
4.23	—Amended and Restated 2008 Performance Incentive Plan (dated May 21, 2012).****
4.24	—Amended and Restated Equity Pledge Agreement between Beijing Champion Distance Education Technology Co., Ltd. and Zhengdong Zhu, dated December 31, 2008.**
4.25	—Amended and Restated Equity Pledge Agreement between Beijing Champion Distance Education Technology Co., Ltd. and Baohong Yin, dated December 31, 2008.**
4.26	—Tri-party Agreement re VIE Structure among Beijing Champion Distance Education Technology Co., Ltd., Zhengdong Zhu and Beijing Champion Hi-Tech Co., Ltd, dated January 30, 2013.****
4.27	—Tri-party Agreement re VIE Structure among Beijing Champion Distance Education Technology Co., Ltd., Baohong Yin and Beijing Champion Hi-Tech Co., Ltd, dated January 30, 2013.****
4.28	—Spousal Consent Letter by Zhengdong Zhu, dated January 30, 2013.****
4.29	—Spousal Consent Letter by Baohong Yin, dated January 30, 2013.****
4.30	—Deed of Undertaking from Zhengdong Zhu and Baohong Yin to our company, dated September 26, 2013.*****
8.1	—Subsidiaries of Registrant.***
11.1	—Code of Business Conduct and Ethics of the Registrant.*
12.1	—CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	—CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	—CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	—CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	—Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP.
15.2	—Consent of Jingtian & Gongcheng.
101.INS	—XBRL Instance Document
101.SCH	—XBRL Taxonomy Extension Schema Document
101.CAL	—XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	—XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	—XBRL Taxonomy Extension Label Linkbase Document
101.PRE	—XBRL Taxonomy Extension Presentation Linkbase Document

* Previously filed with the Registrant’s registration statement on Form F-1 (File No. 333-152167), as amended.

** Previously filed with the Registrant’s Annual Report on Form 20-F for the year ended September 30, 2008.

*** Previously filed with the Registrant’s Annual Report on Form 20-F for the year ended September 30, 2011.

**** Previously filed with the Registrant’s Annual Report on Form 20-F for the year ended September 30, 2012.

***** Previously filed with the Registrant’s Annual Report on Form 20-F for the year ended September 30, 2013.

(1) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-152345) filed with the Securities and Exchange Commission with respect to American depositary shares representing our ordinary shares.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
CHINA DISTANCE EDUCATION HOLDINGS LIMITED**

We have audited the accompanying consolidated balance sheets of China Distance Education Holdings Limited, its subsidiaries, its variable interest entity and the subsidiaries of variable interest entity (collectively, the “Group”) as of September 30, 2013 and 2014, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended September 30, 2014. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of September 30, 2013 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of September 30, 2014, based on the criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 26, 2015 expressed an unqualified opinion on the Group’s internal control over financial reporting.

/S/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People’s Republic of China
January 26, 2015

CHINA DISTANCE EDUCATION HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data, or otherwise noted)

	As of September 30,	
	2013	2014
	US\$	US\$
ASSETS		
Current assets		
Cash and cash equivalents	71,919	118,075
Term deposits	817	5,702
Restricted cash	6	16,637
Accounts receivable, net of allowance for doubtful accounts of US\$1,773 and US\$1,250 as of September 30, 2013 and 2014, respectively	3,518	1,637
Inventories	698	449
Prepayment and other current assets	4,087	3,749
Deferred tax assets, current portion	1,751	2,116
Deferred cost	1,889	1,248
Total current assets	84,685	149,613
Non-current assets		
Property, plant and equipment, net	10,202	10,721
Goodwill	7,711	7,689
Other intangible assets, net	1,476	1,384
Deposit for purchase of non-current assets	374	94
Other non-current assets	1,546	2,128
Total non-current assets	21,309	22,016
Total assets	105,994	171,629
LIABILITIES AND EQUITY		
Current liabilities		
Bank borrowing	—	16,583
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated VIE without recourse to China Distance Education Holdings Limited of US\$13,361 and US\$ 21,275 as of September 30, 2013 and 2014, respectively)	15,072	22,695
Income tax payable (including income tax payable of the consolidated VIE without recourse to China Distance Education Holdings Limited of US\$3,661 and US\$ 3,504 as of September 30, 2013 and 2014, respectively)	4,282	4,209
Deferred revenue (including deferred revenue of the consolidated VIE without recourse to China Distance Education Holdings Limited of US\$17,120 and US\$23,319 as of September 30, 2013 and 2014, respectively)	17,143	23,423
Refundable fees (including refundable fees of the consolidated VIE without recourse to China Distance Education Holdings Limited of US\$4,300 and US\$5,199 as of September 30, 2013 and 2014, respectively)	4,300	5,199
Total current liabilities	40,797	72,109

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS - continued
(In thousands, except share and per share data, or otherwise noted)

	As of September 30,	
	2013	2014
	US\$	US\$
Non-current liabilities		
Deferred tax liabilities, non-current portion	677	1,110
Total non-current liabilities	677	1,110
Total liabilities	41,474	73,219
Commitments and contingencies (Note 18)		
Equity		
Ordinary shares (par value of US\$0.0001 per share at September 30, 2013 and 2014, respectively; Authorized - 480,000,000 and 500,000,000 shares at September 30, 2013 and 2014; Issued and outstanding - 135,532,141 and 142,752,873 shares at September 30, 2013 and 2014, respectively)	14	14
Additional paid-in capital	46,742	77,270
Accumulated other comprehensive income	6,295	6,220
Retained earnings	11,469	14,906
Total equity	64,520	98,410
Total liabilities and equity	105,994	171,629

The accompanying notes are an integral part of the consolidated financial statements.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data, or otherwise noted)

	Years ended September 30,		
	2012 US\$	2013 US\$	2014 US\$
Sales, net of business tax, value-added tax and related surcharges			
Online education services	40,281	58,573	80,545
Books and reference materials	4,438	5,129	6,392
Others	7,383	7,658	10,259
Total net revenues	52,102	71,360	97,196
Cost of sales			
Cost of services	(20,494)	(27,073)	(35,187)
Cost of tangible goods sold	(2,587)	(2,844)	(4,616)
Total cost of sales	(23,081)	(29,917)	(39,803)
Gross profit	29,021	41,443	57,393
Operating expenses			
Selling expenses	(11,337)	(15,673)	(21,445)
General and administrative expenses	(8,248)	(9,806)	(11,645)
Total operating expenses	(19,585)	(25,479)	(33,090)
Other operating income	58	59	253
Operating income	9,494	16,023	24,556
Interest income	1,119	1,415	2,964
Interest expense	—	—	(291)
Exchange gain/(loss)	(40)	(77)	232
Income before income taxes	10,573	17,361	27,461
Less: Income tax expense	(2,600)	(3,797)	(4,052)
Net income from continuing operations	7,973	13,564	23,409
Net income from discontinued operations	236	—	—
Net income	8,209	13,564	23,409
Net income from continuing operations	7,973	13,564	23,409
Net income from discontinued operations	236	—	—
Net income	8,209	13,564	23,409
Net income per share:			
Net income attributable to ordinary shareholders			
Basic from continuing operations	0.06	0.10	0.17
Basic from discontinued operations	0.00	—	—
Basic	0.06	0.10	0.17
Diluted from continuing operations	0.06	0.10	0.17
Diluted from discontinued operations	0.00	—	—
Diluted	0.06	0.10	0.17
Weighted average shares used in calculating net income per share			
Basic	133,996,737	135,174,562	139,613,967
Diluted	134,363,108	136,399,233	140,497,204

The accompanying notes are an integral part of the consolidated financial statements.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Years ended September 30,		
	2012	2013	2014
	US\$	US\$	US\$
Net income	8,209	13,564	23,409
Other comprehensive (loss) / income - change in cumulative foreign currency translation adjustments	701	1,373	(75)
Comprehensive income	<u>8,910</u>	<u>14,937</u>	<u>23,334</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands, except share data, or otherwise noted)

	China Distance Education Holding Limited shareholders					
	Number of ordinary shares	Ordinary shares US\$	Additional paid-in capital US\$	Accumulated other comprehensive income US\$	Retained earnings/ (Cumulative deficits) US\$	Total equity US\$
Balance as of September 30, 2011	127,800,673	13	78,804	4,221	(10,304)	72,734
Net income for the year	—	—	—	—	8,209	8,209
Foreign currency translation adjustments	—	—	—	701	—	701
Repurchase of ordinary shares	(1,285,464)	—	(993)	—	—	(993)
Options exercised	7,871,640	—	3,981	—	—	3,981
Stock-based compensation expense - stock options (Note 21)	—	—	141	—	—	141
Dividends (Note 22)	—	—	(16,268)	—	—	(16,268)
Loan to optionees in connection with exercise of options	—	—	(3,888)	—	—	(3,888)
Balance as of September 30, 2012	134,386,849	13	61,777	4,922	(2,095)	64,617
Net income for the year	—	—	—	—	13,564	13,564
Foreign currency translation adjustments	—	—	—	1,373	—	1,373
Repurchase of ordinary shares	(67,100)	—	(93)	—	—	(93)
Options exercised	987,392	1	602	—	—	603
Stock-based compensation expense (Note 21)	225,000	—	625	—	—	625
Dividends (Note 22)	—	—	(16,056)	—	—	(16,056)
Loan to optionees in connection with exercise of options	—	—	(113)	—	—	(113)
Balance as of September 30, 2013	135,532,141	14	46,742	6,295	11,469	64,520
Net income for the year	—	—	—	—	23,409	23,409
Foreign currency translation adjustments	—	—	—	(75)	—	(75)
Repurchase of ordinary shares	—	—	—	—	—	—
Issuance of new ordinary shares (Note 14)	6,000,000	—	29,088	—	—	29,088
Options exercised	1,095,732	—	491	—	—	491
Stock-based compensation expense (Note 21)	125,000	—	503	—	—	503
Dividends (Note 22)	—	—	(286)	—	(19,972)	(20,258)
Repayment of loan to optionees in connection with exercise of options	—	—	732	—	—	732
Balance as of September 30, 2014	<u>142,752,873</u>	<u>14</u>	<u>77,270</u>	<u>6,220</u>	<u>14,906</u>	<u>98,410</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended September 30,		
	2012 US\$	2013 US\$	2014 US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	8,209	13,564	23,409
Adjustments to reconcile net income to net cash generated from operating activities:			
Stock-based compensation	141	625	503
Gain on disposition of the discontinued operation	(297)	—	—
Depreciation of property, plant and equipment	1,606	1,848	1,808
Amortization of other intangible assets	873	771	592
Provision of inventories	41	67	527
(Reduction in allowance) provision for doubtful accounts	211	(371)	(517)
Losses on disposition of property, plant and equipment	9	151	112
Changes in operating assets and liabilities:			
Decrease in accounts receivable	434	1,036	2,385
(Increase) in inventories	(328)	(89)	(281)
Decrease (increase) in prepayments and other assets	(679)	(420)	327
(Increase) decrease in deferred tax assets	(35)	154	(370)
Decrease (increase) in deferred cost	99	(45)	635
(Increase) in other non-current assets	(348)	(422)	(586)
Increase in accrued expenses and other liabilities	2,827	5,132	7,944
(Decrease) increase in income tax payable	261	1,567	(60)
Increase in deferred revenue	578	7,360	6,321
Increase in refundable fees	898	674	910
Increase in deferred tax liabilities	563	536	434
Net cash generated from operating activities	<u>15,063</u>	<u>32,138</u>	<u>44,093</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity (purchase) of term deposits	—	7,275	(4,880)
(Placement) Withdrawal of restricted cash	2,670	—	(16,607)
Acquisition of property, plant and equipment	(1,662)	(2,128)	(2,241)
Disposal of the discontinued operation, net of cash disposed	(150)	—	—
Acquisition of other intangible assets	(387)	(271)	(452)
Payment of deposit for the acquisition of non-current assets	—	(370)	—
Net cash (used in) generated from investing activities	<u>471</u>	<u>4,506</u>	<u>(24,180)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Bank borrowing	—	—	16,062
Issuance of new ordinary shares	—	—	29,088
Repurchase of ordinary shares	(993)	(93)	—
Proceeds from share options exercised by employees	3,981	603	491
Loan to optionees in connection with exercise of options	(3,888)	(408)	(510)
Repayment of loan to optionees in connection with exercise of options	—	295	1,242
Dividends paid to shareholders	(16,268)	(16,056)	(20,258)
Net cash generated from (used in) financing activities	<u>(17,168)</u>	<u>(15,659)</u>	<u>26,115</u>
Exchange rate effect on cash and cash equivalents	410	1,211	128
Net increase (decrease) in cash and cash equivalents	(1,224)	22,196	46,156
Cash and cash equivalents at beginning of the year	<u>50,947</u>	<u>49,723</u>	<u>71,919</u>
Cash and cash equivalents at end of the year	<u>49,723</u>	<u>71,919</u>	<u>118,075</u>

CHINA DISTANCE EDUCATION HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(In thousands)

	Years ended September 30,		
	2012	2013	2014
	US\$	US\$	US\$
Supplemental schedule of cash flows information			
Income tax paid	(1,818)	(1,539)	(4,049)
Supplemental schedule of non-cash activities			
Acquisition of property, plant and equipment and other intangible assets through utilization of deposits	111	133	280
Income tax reversal	<u>—</u>	<u>—</u>	<u>782</u>

The accompanying notes are an integral part of the consolidated financial statements.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

China Distance Education Holdings Limited (the “Company”) was incorporated under the law of the Cayman Islands on January 11, 2008. The Company, its subsidiaries, its consolidated variable interest entity (“VIE”) and VIE’s subsidiaries (collectively the “Group”) are primarily engaged in providing online and offline education services, and selling related products in the People’s Republic of China (“PRC”).

As of September 30, 2014, details of the Company’s subsidiaries, its VIE and VIE’s subsidiaries were as follows:

<u>Company</u>	<u>Date of establishment</u>	<u>Place of establishment</u>	<u>Percentage of legal ownership by the Company</u>	<u>Principal activities</u>
Subsidiaries:				
China Distance Education Limited (“CDEL Hong Kong”)	March 13, 2003	Hong Kong	100%	Investment holding and provision of education services
Practice Enterprises Network China International Links Limited (“Pencil”)	February 23, 2010	Hong Kong	100%	Inactive
DL Education Service, LLC (“DL Education”)	September 27, 2012	US	100%	Inactive
Beijing Champion Distance Education Technology Co., Ltd. (“Champion Technology”)	January 5, 2004	PRC	100%	Provision of technical support and consultancy services and course production
Beijing Champion Education Technology Co., Ltd. (“Champion Education Technology”)	April 23, 2007	PRC	100%	Software licensing and course production
Variable interest entity:				
Beijing Champion Hi-Tech Co., Ltd. (“Beijing Champion”)	July 12, 2000	PRC	Nil	Provision of online education services and sales of books and reference materials
Subsidiaries of variable interest entity:				
Beijing Caikaowang Company Ltd. (“Caikaowang”)	November 28, 2007	PRC	Nil	Provision of online education services
Beijing Champion Wangge Education Technology Co., Ltd. (“Champion Wangge”)	June 24, 2008	PRC	Nil	Provision of online education services
Beijing Zhengbao Yucai Education Technology Co., Ltd. (“Zhengbao Yucai”)	February 19, 2009	PRC	Nil	Provision of start-up training services
Beijing Haidian District Champion Training School (“Champion Training School”)	February 19, 2009	PRC	Nil	Provision of online and offline education services

The VIE arrangements

There are some uncertainties as to whether applicable PRC laws and regulations prohibit foreign investors from providing telecommunications value-added services in the PRC. As a Cayman Islands corporation, the Company is deemed a foreign legal person under PRC laws. Accordingly, Champion Technology, the Company’s wholly owned subsidiary in the PRC, as a foreign invested company, may be deemed to be ineligible to engage in education business in the PRC.

To comply with these foreign ownership restrictions, the Company operates substantially all of its online education services through its VIE, Beijing Champion, and the VIE’s subsidiaries in the PRC. The VIE and its subsidiaries hold leases and other assets necessary to provide online education services and generate all of the Company’s revenues. To provide the Company effective control over the VIE and the ability to receive substantially all of the economic benefits of the VIE and its subsidiaries, a series of contractual arrangements were entered into amongst CDEL Hong Kong, Champion Technology, Beijing Champion and Beijing Champion’s direct equity holders.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014
(In thousands, except share and per share data, or otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION - continued

The VIE arrangements - continued

- Agreements that transfer economic benefits to Champion Technology

Exclusive technical support and consultancy services agreement

Pursuant to the exclusive technical support and consultancy services agreement between Beijing Champion and Champion Technology, Champion Technology has the exclusive right to provide to Beijing Champion technical and consulting services. Champion Technology is entitled to charge Beijing Champion a service fee equal to its profit before such service fee and tax. This agreement will remain effective until Beijing Champion ceases its operations.

Equity pledge agreement

Pursuant to the equity pledge agreement between Beijing Champion and Champion Technology, the nominee shareholders of Beijing Champion have pledged their equity interest in Beijing Champion to Champion Technology to secure the payment obligations of Beijing Champion under the technical support and consultancy services agreement between Beijing Champion and Champion Technology. If Beijing Champion breaches its contractual obligations under that agreement, Champion Technology, as the pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The nominee shareholders of Beijing Champion agree that, without prior written consent of Champion Technology, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests that would prejudice Champion Technology's interest. This agreement will remain effective until the discharge of Beijing Champion's contractual obligations under the exclusive technical support and consultancy services agreement as described above.

Letter of undertaking from Beijing Champion's shareholders to Champion Technology

Pursuant to this letter addressed to Champion Technology, the shareholders of Beijing Champion undertook to, unless restricted by laws, regulations or legal procedures, (i) remit all dividends, interests, other distributions or remnant assets after liquidation, if any, they receive from Beijing Champion to Champion Technology without compensation, after paying the corresponding tax and any other required expenses, (ii) transfer all or part of their equity interests to CDEL Hong Kong at a nominal or minimal purchase price, in the event CDEL Hong Kong exercises its exclusive purchase right to acquire any or all of the equity interests in Beijing Champion, (iii) remit to Champion Technology all considerations they may receive from CDEL Hong Kong's acquisition of any equity interests in Beijing Champion, without compensation, after paying the corresponding tax and any other required expenses and (iv) act in the best interest of Champion Technology.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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1. ORGANIZATION AND BASIS OF PRESENTATION - continued

The VIE arrangements - continued

- Agreements that provide Company effective control over Beijing Champion

Exclusive purchase right contract

Pursuant to the exclusive purchase right agreement, CDEL Hong Kong has the unconditional right to purchase the entire equity interest in, or all the assets of Beijing Champion, for a purchase price equal to the net assets of Beijing Champion or the minimum price permitted by PRC laws, if and when PRC laws are amended to permit such a transaction. The term of this agreement is ten years from the date thereof and can be extended for another ten years, at the discretion of CDEL Hong Kong. On December 19, 2014, CDEL Hong Kong decided to extend the term of this agreement for another ten years and retroactively acknowledged the validity of this agreement for the period from May 9, 2014 to December 19, 2014. Through the exclusive purchase right contract, each of Beijing Champion's shareholders irrevocably granted CDEL Hong Kong an exclusive right to acquire, at any time, for its own account or through one or more PRC individuals or entities as nominee shareholders of its choice to replace the existing shareholders of Beijing Champion. This kick-out right reinforces CDEL Hong Kong's ability to direct the activities that most significantly impact Beijing Champion's economic performance.

Power of attorney

Pursuant to the power of attorney, the nominee shareholders of Beijing Champion each executed an irrevocable power of attorney assigning Champion Technology or any person designated by Champion Technology as their attorney-in-fact to vote on their behalf on all matters of Beijing Champion requiring shareholder approval under PRC laws and regulations and the articles of association of Beijing Champion.

The Articles of Incorporation of Beijing Champion states that the major rights of the shareholders include the power to review and approve annual budget, operating strategy and investment plan, elect the members of board of directors and approve their compensation plan. Therefore, through the irrevocable power of attorney arrangement, Champion Technology has the ability to exercise effective control over Beijing Champion through equity holder votes and, through such votes, to also control the composition of the board of directors.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION - continued

The VIE arrangements - continued

- Agreements that provide Company effective control over Beijing Champion - continued

Deed of undertaking:

The Company, Mr. Zhengdong Zhu and his wife, Ms. Baohong Yin executed a deed of undertaking (“Deed”) on September 26, 2013.

Pursuant to this deed, Mr. Zhengdong Zhu and Ms. Baohong irrevocably covenanted and undertaking to the Company to abstain from (1) utilizing their status as majority shareholders of the Company to vote for the appointment or removal of a director of the Company and (2) any matters related to the Deed. This deed was terminated automatically upon the completion of the follow-on public offering on March 11, 2014 as Mr. Zhengdong Zhu and Ms. Baohong Yin no longer owned a majority of outstanding ordinary shares after the follow-on public offering.

These contractual arrangements allow the Group to effectively control Beijing Champion and its subsidiaries and to derive substantially all of the economic benefits from them. Accordingly, the Group treats Beijing Champion as a VIE and because the Group is the primary beneficiary of Beijing Champion, the Group has consolidated the financial results of Beijing Champion and its subsidiaries.

- Risks in relation to VIE structure

The Company believes that the contractual arrangements with Beijing Champion and its shareholders are in compliance with existing PRC laws and regulations and are valid, binding and enforceable and will not result in any violation of PRC laws or regulations and the PRC regulatory authorities may take a contrary view. If the legal structure and contractual arrangements were found to be in violation of any existing PRC laws and regulations, the regulatory authorities may exercise their discretion and:

- revoke the business and operating licenses of the Company’s PRC subsidiaries or consolidated affiliated entities;
- restrict the rights to collect revenues from any of the Company’s PRC subsidiaries;
- discontinue or restrict the operations of any related-party transactions among the Company’s PRC subsidiaries or consolidated affiliated entities;
- require the Company’s PRC subsidiaries or consolidated affiliated entities to restructure the relevant ownership structure or operations;
- take other regulatory or enforcement action is, including levying fines that could be harmful to the Company’s business; or
- impose additional conditions or requirements with which the Company may not be able to comply.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION - continued

The VIE arrangements - continued

- Risks in relation to VIE structure - continued

The imposition of any of these penalties may result in a material adverse effect on the Company's ability to conduct its business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of the VIE and their subsidiaries or the right to receive their economic benefits, the Company would no longer be able to consolidate the financial results of the VIE and its subsidiaries.

The Company's ability to control Beijing Champion also depends on the powers of attorney that enable Champion Technology to vote on all matters requiring shareholder approval for Beijing Champion. As noted above, the Company believes these powers of attorney are valid, binding and enforceable under existing PRC laws and regulations but may not be as effective as direct equity ownership.

Certain shareholders of Beijing Champion are also beneficial owners or directors of the Company. In addition, certain beneficial owners and directors of the Company are also directors or officers of Beijing Champion. Their interests as beneficial owners of Beijing Champion may differ from the interests of the Company as a whole. The Company cannot be certain that if conflicts of interest arise, these parties will act in the best interests of the Company or that conflicts of interests will resolve in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest these parties may encounter in their capacity as beneficial owners of Beijing Champion, on one hand, and as beneficial owners of the Company, on the other hand. The Company believes the shareholders of Beijing Champion will not act contrary to any of the contractual arrangements and the exclusive purchase right contract provides the Company with a mechanism to remove them as shareholders of Beijing Champion should they act to the detriment of the Company. If any conflict of interest or dispute between the Company and the shareholders of Beijing Champion arises and the Company is unable to resolve it, the Company would have to rely on legal proceedings in the PRC. Such legal proceedings could result in disruption of its business; moreover, there is substantial uncertainty as to the ultimate outcome of any such legal proceedings.

The Group's online education business has been directly operated by (and as a result all of the Group's revenues have been generated from) the VIE and its subsidiaries. For the years ended September 30, 2013 and 2014, Beijing Champion and its subsidiaries accounted for an aggregate of 68% and 61%, respectively, of the Group's consolidated total assets, and 93% and 73%, respectively, of the Group's consolidated total liabilities. The assets not associated with Beijing Champion and its subsidiaries in these years primarily consisted of cash held by China Distance Education Holdings Limited.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014
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1. ORGANIZATION AND BASIS OF PRESENTATION - continued

The VIE arrangements - continued

The following financial information of the Company's VIE and VIE's subsidiaries as of September 30, 2013 and 2014 and for each of the three years in the period ended September 30, 2014 was included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances within VIE and VIE's subsidiaries:

	As of September 30,	
	2013	2014
	US\$	US\$
Cash and cash equivalents	39,706	75,117
Prepayment and other current assets	3,839	3,100
Total current assets	54,575	87,205
Total assets	72,515	104,569
Deferred revenue	17,120	23,319
Total current liabilities	38,442	53,297
Total liabilities	38,442	53,297
Total equity	34,073	51,272

	For the years ended September 30,		
	2012	2013	2014
	US\$	US\$	US\$
Revenues	52,005	70,942	96,990
Net income (1)	14,944	21,062	31,986
Net cash provided by operating activities	6,958	25,755	36,326
Net cash (used in)/provided by investing activities	549	(2,521)	(850)
Effects of exchange rate changes	183	674	(65)

- (1) This is net income before service fees charged by Champion Technology and Champion Education Technology.

There are no consolidated VIE's assets that are collateral for the VIE's obligations and which can only be used to settle the VIE's obligations. No creditor (or beneficial interest holders) of the VIE have recourse to the general credit of the Company or any of its consolidated subsidiaries. No terms in any arrangements, considering both explicit arrangements and implicit variable interests, require the Company or its subsidiaries to provide financial support to the VIE. However, if the VIE ever needs financial support, the Company or its subsidiaries may, at its option and subject to statutory limits and restrictions, provide financial support to the VIE through loans to the shareholders of the VIE or entrustment loans to the VIE.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and use of estimates

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

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions reflected in the Group's financial statements include, but are not limited to, revenue recognition, consolidation of VIE, income tax, allowance for doubtful accounts, impairment of goodwill and long-term assets and share-based compensation expenses. Actual results could materially differ from those estimates.

The effect of discontinued operations has been reflected in certain accounts in the consolidated financial statements for the year ended September 30, 2011 as described in Note 3.

Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIE and VIE's subsidiaries. All transactions and balances among the Company, its subsidiaries, its VIE and VIE's subsidiaries have been eliminated upon consolidation.

Foreign currency translation and transactions

The Company, DL Education, CDEL Hong Kong and Pencil's functional currencies are United States dollars ("US\$"). The Company's PRC subsidiaries, VIE and VIE's subsidiaries determine their functional currencies to be the Chinese Renminbi ("RMB"). The Company uses the US\$ as its reporting currency and uses the monthly average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position of its PRC subsidiaries and its variable interest entities, respectively. Translation differences are recorded in accumulated other comprehensive income, a component of consolidated statements of changes in equity.

Transactions denominated in foreign currencies are remeasured into the functional currency at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are remeasured at the balance sheet date exchange rate. Exchange gains and losses are included in the consolidated statements of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have an original maturity of three months or less when purchased.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014
(In thousands, except share and per share data, or otherwise noted)**

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Term deposits

Term deposits consist of deposits placed with financial institutions with an original maturity of greater than three months and less than one year.

Restricted cash

Restricted cash represents deposits not readily available to the Company. Restricted cash as of September 30, 2014 mainly represented cash pledged as security of bank borrowing.

Inventories

Inventories, consisting of paper and professional examination reference books, are stated at the lower of cost or market value. Cost is determined using the first in, first out method.

Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability. Authoritative literature provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Fair value - continued

The Group's financial instruments consist of cash equivalents, term deposits, restricted cash, accounts receivable, other current assets, and other current liabilities. The carrying amounts of these instruments approximate their fair values due to their short-term maturity.

The Group reviews goodwill for impairment annually or more frequently if events or changes in circumstances indicate the possibility of impairment. For the continuing operations, other intangible assets, and other long-lived assets are measured at fair value on a nonrecurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. For discontinued operations, long-lived assets are measured at the lower of carrying amount or fair value less cost to sell. The fair value of these assets were determined using models with significant unobservable inputs which were classified as Level 3 inputs, primarily the discounted future cash flow.

Allowance for doubtful accounts

An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable based on an assessment of specific evidence indicating doubtful collection, historical experience, account balance aging and prevailing economic conditions. Accounts receivable balances are written off after all collection efforts have been exhausted.

Property, plant and equipment, net

Property, plant and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

<u>Category</u>	<u>Estimated useful life</u>	<u>Estimated residual value</u>
Buildings	35 years	5-10%
Electronic and office equipment	5 years	5-10%
Motor vehicles	5 years	5-10%
Leasehold improvement and building improvement	Shorter of lease term or 5 years	—

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterment that extends the useful lives of property, plant and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of operations.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Goodwill

Goodwill is not amortized, but tested for impairment annually or more frequently if event and circumstances indicate that it might be impaired.

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheet as goodwill. In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance permits the Company to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Absent from any impairment indicators, the Group performs its annual impairment test on the last day of each fiscal year.

For the years ended September 30, 2013 and 2014, the Group performed its annual impairment test using a two-step approach. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any, by comparing the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, with the excess purchase price over the amounts assigned to assets and liabilities representing the implied fair value of goodwill.

Other intangible assets, net

Other intangible assets are amortized using the straight-line basis over the estimated useful lives as follows:

<u>Category</u>	<u>Estimated useful life</u>
Computer software	3~5 years
Trademarks and domain names	10~11 years
Courseware	1~5 years
Website	5 years
Business contracts	3~5 years
Copyrights	5 years
Platform	3.5 years

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the fair value of the assets.

If the intent is to hold the asset for sale and certain other criteria are met (i.e., the asset can be disposed of currently, appropriate levels of authority have approved sale, and there is an actively pursuing buyer), the impairment test is a comparison of the asset's carrying value to its fair value less costs to sell. To the extent that the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference. Assets held for sale are separately presented on the balance sheet and are no longer depreciated.

Revenue recognition

Revenues are recognized when the following four criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the service has been rendered, (iii) the fees are fixed or determinable, and (iv) collectability is reasonably assured.

Online education services

The online education service provided by the Group to its customers is an integrated service, including audio-video course content, mock examinations and online chat rooms during the subscription period. Audio-video course content, mock examinations and online chat rooms are not practical to be sold on standalone basis and have never been sold separately.

The Group earns revenues by providing online education services to customers pursuant to two types of revenue models - non-refundable course model and refundable course model.

The on-line courses using the non-refundable course model are mainly comprised of regular classes and premium classes. The revenues for the regular classes are recognized on a straight line basis over the subscription period from the month in which the customers enroll in the courses to the month in which subscribed courses terminate. For premium classes, if participants fail to pass the course examination and certain pre-agreed conditions are met, the participants can be offered by certain course fee discount to retake the same premium course. As such, the discount is proportionately applied as a deduction to revenue recognized for each of the premium classes that participants take.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Online education services - continued

For on-line courses using the refundable course model (i.e. elite classes), if the participants complete the courses and fail the professional exams and their scores are within a range provided for in the agreement, they are entitled to either a full refund or the right to retake the course. The participants must notify the Group within a pre-agreed period after the professional examinations scores are released in order to be eligible for the refund or the right to retake the course. The proceeds from the refundable course model are initially recorded as “refundable fees”. Revenues are recognized upon the expiration of the participants’ right to receive a refund or ratably over the retake course period when the participants decide to retake the course before the expiration of such right.

Most of the course participants pay course fees via online payment systems provided by third parties including internet debit or credit card payment systems and other third-party payment systems. Some participants may choose to enroll for on-line courses through the use of prepaid study cards which are purchased from distributors. The Group sells to its regional distributors prepaid study cards at a discount to the face value of the cards. Revenues are recorded using the after-discount-selling-price of the cards and recognized over the period the on-line course is available to the customers, which generally is from the enrollment date to the completion of the relevant professional examination date. Sales of prepaid study cards that are not activated for course enrollment are recognized as revenues upon expiration of the cards. Prepaid study cards that have been activated but have not been used to enroll on-line courses do not have an expiry date and will be deferred until they are used to enroll in on-line courses. Participants who enroll with the Company directly are eligible to a refund within a 7-day trial period. Revenues from direct enrollment with the Company are recognized over the period from the lapse of the 7-day trial period to the completion of the relevant professional examination date.

The Group may, at times, offer volume discounts to its regional distributors for purchases over a specified amount of prepaid cards during a specified period of time, generally, one year. The amount of future rebates relating to these volume discounts cannot be reasonably estimated and accordingly a deferred revenue balance is recognized for the maximum potential amount of volume discount. If the number of purchases specified in the volume discount provisions is not reached upon the expiry of the volume discount period, the deferred revenue relating to such volume discount for each study card is recognized as revenue over the remaining period the on-line course is available to the user who enrolls using the study card or recognized as revenue immediately if the related on-line course has been completed or the study card has expired.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Online education services - continued

The Group provides student recruiting services and online platform to government agencies which use the Group's online platform to conduct continuing education services. The Group earns service fees as a percentage of total tuition fees based on the agreements entered into with the government agencies. Service fees are initially recorded as deferred revenue and are recognized as revenue when course participants complete the stipulated study hours and take the examinations, or on a straight line basis over the subscription period based on the terms of the agreements.

The Group also operates an Online Open Learning Platform, a proprietary education platform that allows other parties to share their educational content or deliver live courses online. After passing the Group's quality control reviews, experts and scholars of various fields can either record their own lectures and post them on the Open Learning Platform website, or deliver real-time audio-video courses. The group offers coaching services to these lecturers and deploys a user evaluation system to ensure that these courses meet its quality and effectiveness standards. The Group pays the experts and scholars certain percentage of the service fee they received from the end users. Revenues from Open Learning Platform are recognized on gross basis, as the Group is the primary obligor in the arrangement and bears the risks and rewards, including the quality control and the services delivered.

For the years ended September 30, 2012, 2013 and 2014, the Group recognized revenues before business tax and related surcharges in connection with expired study cards amounted to US\$113, US\$164, and US\$114, respectively.

The on-line courses service is provided by Beijing Champion and its subsidiaries which are subject to approximately 3% business tax and related surcharges. The Group records revenues net of these taxes in the consolidated statements of operations. Such business tax and related surcharges for the years ended September 30, 2012, 2013 and 2014 were US\$1,331, US\$1,986 and US\$2,699 respectively.

Books and reference materials

The Group sells books and reference materials to distributors and end users. Revenues relating to such sales are deferred until cash is collected. Inventory costs of products delivered to distributors for which revenues have been deferred are presented as "deferred costs" on the consolidated balance sheets.

The Group also sells books and reference materials together with study cards which allow the customers to take a certain number of on-line courses for no additional charge. These sales are considered arrangements with two deliverables, consisting of the delivery of books and reference material and the on-line courses service. Because neither vendor-specific objective evidence nor third-party evidence of fair value of the deliverables exist, the Group allocates revenue to each deliverables based on their relative selling price.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Other revenues

Other revenues include sales of offline professional training, courseware production services, platform production services, and others.

Revenues from offline professional training are recognized when the training courses are provided. For offline training sponsored by government authorities, the tuition fees of the training participants are subsidized by the government. Qualified enrollments and the fees to be earned cannot be determined until the confirmation from government authorities regarding the number of students and fees is received by the Company, which is after the completion of services. Therefore, revenues from such services are recognized upon cash receipt or the receipt of confirmations from government authorities, whichever is earlier, when all the other revenue recognition criteria have been met.

Revenues from sales of courseware, which are designed and developed pursuant to the requests from customers, are recognized when the courseware or platforms are accepted by the customers. The Company has no significant remaining obligation with respect to the courseware or platforms upon the acceptance of the customers.

From time to time, the Group enters into arrangement to provide the development and maintenance of online platforms to its customers. After the development of online platforms, the Group provides support and maintenance services. The development of online platform and the support and maintenance services have never been sold separately and they do not have standalone value to the customers. Accordingly, revenues from such arrangement is accounted as a single unit of accounting and recognized ratably over the support and maintenance services period.

Revenues from other services, including magazine content production, advertising and consulting services, are recognized over the period when such services are provided.

Value added taxes

On January 1, 2012, the PRC Ministry of Finance and the State Administration of Taxation officially launched a pilot value-added tax ("VAT") reform program ("Pilot Program"), applicable to businesses in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Program initially applied only to transportation industry and "modern service industries" ("Pilot Industries") in Shanghai and subsequently was expanded to ten other provinces and municipalities between August and December 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Value added taxes - continued

As a result, since September 1, 2012, technical and consulting service, software licensing and course production services provided by Champion Technology and Champion Education Technology, and since July 1, 2014, course production services provided by Champion Wangge were no longer subject to business tax but VAT instead. Champion Technology is VAT general taxpayer. Champion Education Technology was VAT small-scale taxpayer but was treated as general taxpayer since February 1, 2014. Champion Wangge was qualified as small-scale taxpayer since July 1, 2014. The applicable VAT rates are 6% and 3% for the entities that are general taxpayer and small-scale taxpayer, respectively.

Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in the line item of accrued expenses and other current liabilities on the consolidated balance sheets.

Pursuant to a circular jointly released by Ministry of Finance and State Administration of Taxation on December 25, 2013, the Group is subject to a VAT exemption for the proceeds received from customers for sales related to books and reference materials till December 31, 2017. As a result, the Group registered a tax exemption application at state tax bureau in February 2014 and started to enjoy such tax exemption for the relevant sales since March 2014. Prior to the filling of tax exemption application in February 2014, the Group was subject to VAT generally at a rate of 13% on the proceeds received for the sales of books and reference materials.

Cost of sales

Cost of online education services primarily includes the production costs of study cards, server and bandwidth leasing fees, lecturer fees, staff costs involved in the operation of online education services including network operation and maintenance, course production and tutor services and other direct costs of providing these services. These costs are expensed when incurred.

The cost of books and reference materials, including direct materials used for production of books, authorship fee and printing cost, are initially deferred and recorded as “deferred cost”. The deferred costs are recognized as cost of sales when the related revenue is recognized upon cash receipt.

Advertising expenditure

Advertising expenditure is expensed when incurred and are included in “selling expenses” in the consolidated statements of operations. Advertising expenses from continuing operations were US\$2,112, US\$3,167 and US\$6,464, and those from discontinued operations were US\$26, US\$ nil and US\$ nil, for the years ended September 30, 2012, 2013 and 2014, respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Shipping and handling costs

Shipping and handling costs of books and reference materials are classified as a component of “selling expenses” in the consolidated statements of operations. Shipping and handling costs classified as selling expenses from continuing operations were US\$252, US\$489 and US\$703, and those from discontinued operations were US\$1, US\$nil and US\$nil, for the years ended September 30, 2012, 2013 and 2014, respectively.

Income taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the financial statements. Net operating loss carry forwards and credits are applied using enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that a portion of or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. The impact of an uncertain income tax position is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

Share-based compensation

Share-based compensation with employees is measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expense over the requisite service period, with a corresponding addition to paid-in capital. The Group recognizes compensation expense over the vesting term on a straight-line basis with the amount of compensation expense recognized at any date not less than the portion of the grant-date value of the option vested at that date.

Share-based compensation with non-employee is measured based on the fair value of options at the earlier of the performance commitment date or the date at which the non-employee’s performance is complete (hereafter referred to as the measurement date). The Group recognizes compensation expense using the graded vesting attribution method.

Share-based compensation awards which require the issuance of a variable number of shares to settle a fixed monetary amount are accounted for as liabilities.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Net income per share

Basic net income per share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Nonvested restricted shares are also participating securities as they enjoy identical dividend rights as ordinary shares. Accordingly, the Group uses the two-class method whereby undistributed net income is allocated on a pro rata basis to each participating share to the extent that each class may share in income for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. The dilutive effect of outstanding share-based awards is reflected in the diluted net income per share by application of the treasury stock method.

Comprehensive income

Comprehensive income includes net income and foreign currency translation adjustments and is reported in the consolidated statements of comprehensive income.

Significant risks and uncertainties

Foreign currency risk

RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Group from the continuing operations included aggregate amounts of US\$68,867 and US\$110,342, which were denominated in RMB, at September 30, 2013 and 2014, respectively, representing 95.8% and 93.5% of the cash and cash equivalents at September 30, 2013 and 2014, respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES - continued

Significant risks and uncertainties - continued

Concentration of credit risk

Financial instrument that potentially expose the Group to significant concentration of credit risk primarily consist of cash and cash equivalents, term deposits, restricted cash, accounts receivable and prepayment and other current assets. As of September 30, 2014, substantially all of the Group's cash and cash equivalents, term deposits and restricted cash were deposited in financial institutions located in the PRC and Hong Kong. Accounts receivable are typically unsecured and are derived from revenue earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances.

There are no revenues from customers which individually represent greater than 10% of the total net revenues for any year of the three years period ended September 30, 2014.

Primarily due to the long payment cycles of government agencies, the Group had one customer that accounted for 31.4% and 21.7% of the Group's carrying amount of accounts receivable as of September 30, 2013 and September 30, 2014 respectively.

Recently issued accounting pronouncements not yet adopted

In April, 2014, the FASB issued Accounting Standard Update 2014-08, which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The new guidance eliminates the second and third criteria of discontinued operation in ASC 205-20-45-1 and instead requires discontinued-operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU also expands the scope of ASC 205-20 to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale.

The ASU also requires entities to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position.

Regarding the statement of cash flows, an entity must disclose, in all periods presented, either (1) operating and investing cash flows or (2) depreciation and amortization, capital expenditures, and significant operating and investing noncash items related to the discontinued operation.

The ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. Early adoption is permitted. The Group does not expect the adoption of this guidance will have a significant effect on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Recently issued accounting pronouncements not yet adopted - continued

In May 2014, the FASB issued, ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". The guidance substantially converges final standards on revenue recognition between the FASB and the International Accounting Standards Board providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Group is in the process of evaluating the impact of adoption of this guidance on its consolidated financial statements.

In June 2014, the FASB issued a new pronouncement which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation-Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved.

The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Group does not expect the adoption of this guidance will have a significant effect on its consolidated financial statements.

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3. DISCONTINUED OPERATIONS

On September 30, 2009, Champion Wangge acquired the Gaokao retake business from Mr. Junnan Ye and Mr. Xiujie Hu, two third-party individuals. The acquired business is operated by Champion Xinlixiang, an entity established by Champion Wangge. Since such business has been in a loss position, on September 27, 2011, the Company decided to discontinue the operations of Gaokao retake business and put the related assets and business up for sale.

On May 4, 2012, the Company completed the sale of this operation for total cash proceeds of US\$157. The assets sold consisted primarily of cash and cash equivalents, accounts receivable, property and equipment, prepayment and other assets. The buyer also assumed certain income tax payable, deferred revenue and accrued liabilities and other liabilities.

The following is a summary of the assets and liabilities sold as of May 4, 2012 and the related gain on disposal:

	Disposed as of May 4, 2012 <u>US\$</u>
Current assets of discontinued operations:	
Cash and cash equivalents	312
Accounts receivable, net	14
Prepayment and other current assets	<u>324</u>
	<u><u>650</u></u>
Current liabilities of discontinued operations:	
Accrued expenses and other liabilities	348
Income tax payable	128
Deferred revenue, current portion	<u>314</u>
	<u>790</u>
Net liabilities disposed	(140)
Cash proceeds	<u>157</u>
Gain on disposition of the discontinued operation	<u><u>297</u></u>

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3. DISCONTINUED OPERATIONS - continued

Summarized operating results from the discontinued operations included in the Group's consolidated statements of operations were as follows for the year ended September 30, 2012:

	Year ended September 30, 2012
	US\$
Revenues	1,045
Pre-tax (loss) from discontinued operations	(61)
Income tax expense	—
(Loss) from discontinued operations, net of tax	(61)
Gain on disposal of discontinued operation	297
Net income from discontinued operations attributable to China Distance Education Holding Limited, net of tax	236

All notes to the accompanying consolidated financial statements have reflected the effect of the discontinued operations, where applicable.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	As of September 30,	
	2013	2014
	US\$	US\$
Accounts receivable	5,291	2,887
Less: allowance for doubtful accounts	(1,773)	(1,250)
Accounts receivable, net	3,518	1,637

Movement of allowance for doubtful accounts was as follows:

	As of September 30,	
	2013	2014
	US\$	US\$
Balance at beginning of year	2,092	1,773
Reversal of the allowance for doubtful accounts	(371)	(517)
Foreign currency adjustment	52	(6)
Balance at end of the year	1,773	1,250

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5. INVENTORIES, NET

Inventories consisted of the following:

	As of September 30,	
	2013	2014
	US\$	US\$
Books and other goods	708	968
Paper and other raw materials	102	121
Less: inventory provisions for slow-moving and obsolescence	(112)	(640)
	698	449

Inventories provision made in the years ended September 30, 2012, 2013 and 2014 were US\$41, US\$67 and US\$527, respectively.

6. PREPAYMENT AND OTHER CURRENT ASSETS

Prepayment and other current assets consisted of the following:

	Notes	As of September 30,	
		2013	2014
		US\$	US\$
Advance to the suppliers	(1)	1,873	766
Prepaid expenses		1,034	1,669
Interest receivable		24	369
Current portion of receivables related to ITAT program (Note 11)		285	—
Funds receivable	(2)	285	306
Deposits		11	23
Others		575	616
Prepayment and other current assets, net		4,087	3,749

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6. PREPAYMENT AND OTHER CURRENT ASSETS - continued

- (1) Advance to the suppliers represents interest-free cash deposits paid to suppliers for future purchase of raw materials and finished goods. The risk of loss arising from non-performance by or bankruptcy of the suppliers is assessed prior to making the deposits and is monitored on a regular basis by management. A charge to cost of sales will be recorded in the period in which a loss incurs. To date, the Group has not experienced any loss of advances to suppliers.
- (2) Funds receivable arise due to the time taken to clear customers' payment transactions through external payment networks. When customers remit fees to the Group via external payment networks using their bank account or credit card, there is a clearing period before the cash is received by the Group which usually takes one to three business days. These fees are treated as a receivable until the cash is received.

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following:

	As of September 30,	
	2013	2014
	US\$	US\$
Buildings	6,051	6,033
Electronic and office equipment	9,523	9,896
Leasehold improvement and building improvement	681	511
Motor vehicles	1,164	1,563
Total	17,419	18,003
Less: Accumulated depreciation	(7,217)	(7,282)
	10,202	10,721

Depreciation expenses from continuing operations were US\$1,606, US\$1,848 and US\$1,808, and from discontinued operations were US\$ nil, nil and nil, for the years ended September 30, 2012, 2013 and 2014, respectively.

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8. GOODWILL

Goodwill was comprised of the following:

	Years ended September 30					
	2013			2014		
	Online education service US\$	Start-up training service US\$	Total US\$	Online education service US\$	Start-up training service US\$	Total US\$
Gross amount						
Beginning balance	5,726	1,785	7,511	5,880	1,831	7,711
Exchange difference	154	46	200	(17)	(5)	(22)
Ending balance	<u>5,880</u>	<u>1,831</u>	<u>7,711</u>	<u>5,863</u>	<u>1,826</u>	<u>7,689</u>
Accumulated impairment loss	—	—	—	—	—	—
Goodwill, net	<u><u>5,880</u></u>	<u><u>1,831</u></u>	<u><u>7,711</u></u>	<u><u>5,863</u></u>	<u><u>1,826</u></u>	<u><u>7,689</u></u>

The Group tested its goodwill for impairment at the following reporting units level.

Online education service - This reporting unit provides online education services to its customers located in the PRC and Hong Kong. It includes all the subsidiaries, the VIE and VIE's subsidiaries of the Group except for Zhengbao Yucai. The goodwill arising from the acquisitions of the entities under this reporting unit is fully allocated to this reporting unit.

Start-up training service - This reporting unit provides start-up training services to the Group's customers located the PRC. It includes Zhengbao Yucai. The goodwill arising from the acquisitions of Zhengbao Yucai is fully allocated to this reporting unit.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Group did not record any impairment of goodwill on online education service and start-up training service for the years ended September 30, 2012, 2013 and 2014.

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9. OTHER INTANGIBLE ASSETS, NET

Excluding those that had been fully amortized as of September 30, 2013 and 2014, respectively, other intangible assets consisted of the following:

	As of September 30,	
	2013	2014
	US\$	US\$
Computer software	2,978	3,428
Trademarks and domain names	1,456	1,499
Courseware	488	486
Business contracts	531	530
Copyrights	664	662
Platform	217	217
Total intangible assets	6,334	6,822
Less: Accumulated amortization		
Computer software	(2,275)	(2,595)
Trademarks and domain names	(840)	(952)
Courseware	(462)	(486)
Business contracts	(494)	(530)
Copyrights	(600)	(658)
Platform	(187)	(217)
Accumulated amortization	(4,858)	(5,438)
Intangible assets, net	1,476	1,384

Amortization expenses from continuing operations were US\$873, US\$771 and US\$592 and from discontinued operations were nil, for the years ended September 30, 2012, 2013 and 2014, respectively.

The estimated amortization expenses for the above other intangible assets for each of the following fiscal years are as follows:

	Amortization
	US\$
2015	410
2016	363
2017	296
2018	168
2019	95
2020 and thereafter	52
	<u>1,384</u>

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10. DEPOSITS FOR PURCHASE OF NON-CURRENT ASSETS

Deposits for purchase of non-current assets consisted of the following:

	As of September 30,	
	2013	2014
	US\$	US\$
Deposit for purchase of property, plant and equipment and other intangible assets	374	94
	374	94

11. OTHER NON-CURRENT ASSETS

Other non-current assets consisted of the following:

		As of September 30,	
		2013	2014
		US\$	US\$
Long-term prepaid expenses	(1)	1,207	1,903
Long-term receivables related to ITAT program	(2)	171	—
Rental deposits	(3)	168	225
		1,546	2,128

- (1) Long-term prepaid expenses represent golf club membership fee. The amortization of the long term prepaid expenses was made within a ten-year amortizing period and was recorded as “general and administrative expenses” on the consolidated statements of operations.
- (2) Long-term receivables represent the non-current portion of prepaid service fee for obtaining government authorization to provide the ITAT program, an information technique application training program, for ten years, starting from 2010. The group amortized such prepayment on a straight-line basis. In 2013, the Group ceased a series of cooperation on ITAT program. As of September 30, 2014, the receivables related to ITAT program, including current portion and non-current portion had been fully settled.
- (3) Rental deposits represent office rental deposits for the Group’s daily operations. These deposits are classified as non-current deposits since they will not be refunded within one year.

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12. ACCRUED EXPENSES AND OTHER LIABILITIES

The components of accrued expenses and other liabilities are as follows:

	As of September 30,	
	2013	2014
	US\$	US\$
Accrued expenses	2,795	3,726
Salary and welfare payable	2,775	5,222
Tuition fee payables to government agencies	5,132	10,096
Remuneration payable to lecturers	2,314	1,802
Uncertain income tax liabilities (Note 16)	177	177
Payables to employees in connection with options exercise	458	94
Other payable	1,421	1,578
	<u>15,072</u>	<u>22,695</u>

Tuition fee payable to government agencies mainly represents the portion of tuition fee collected by the Group on behalf of the government agencies which provide certain continuing education courses and the Group is only responsible for the student recruiting and provision of online platform and shares certain percentage of fee tuition as service fees.

13. BANK BORROWING

On December 6, 2013, CDEL Hong Kong entered into a loan agreement with Deutsche Bank, AG, Singapore Branch, for a RMB100 million, approximately US\$16 million, term loan facility with an 2.40% annual interest rate for a term of 18 months. The facility was secured by a term deposit of RMB100 million provided by Champion Technology, which was recorded as “restricted cash” on balance sheet as of September 30, 2014. As of September 30, 2014, such bank borrowing would mature within 12 months and accordingly was recorded as short-term liability.

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14. ORDINARY SHARES

Under the share repurchase programs approved by the Company's board of directors on November 20, 2008 and April 29, 2011, the Company is authorized to repurchase up to US\$20 million worth of its issued and outstanding ADSs from time to time in open-market transactions on NYSE. During the years ended September 30, 2012, 2013 and 2014, the Company repurchased 1,285,464, 67,100 and nil ordinary shares at total considerations of US\$993, US\$93 and US\$nil, respectively. Such shares were immediately canceled after the repurchase.

On March 11, 2014, the Company completed a follow-on public offering of ADSs by the Company and certain selling shareholders. Through the follow-on public offering the Company issued and sold 6,000,000 ordinary shares, representing 1,500,000 ADSs at the price of US\$21.00 per ADS. The net proceeds received by the Company, after deducting underwriting commissions and other professional service fees, amounted to US\$29,088.

15. RESTRICTED NET ASSETS

Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts, which is included in retained earnings accounts in equity section of the consolidated balance sheets. A wholly-owned foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve reaches 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. Champion Technology and Champion Education Technology were established as wholly-owned foreign invested enterprises and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory common reserve at least 10% of its annual after-tax profit until such reserve reaches 50% of its respective registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide for discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise's PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

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15. RESTRICTED NET ASSETS - continued

Because the Group's entities in the PRC can only be paid out of distributable profits reported in accordance with PRC accounting standards, the Group's entities in the PRC are restricted from transferring a portion of their net assets to the Company. The restricted amounts include the paid-in capital and statutory reserves of the Group's entities in the PRC. The aggregate amount of paid-in capital and statutory reserves, which represented the amount of net assets of the Group's entities in the PRC (mainland) not available for distribution, were US\$23,457 and US\$23,581, as of September 30, 2013 and 2014, respectively.

16. INCOME TAX

Cayman Islands

Under current law of Cayman Islands, the Company is not subject to income or capital gains taxes. In addition, dividends payments are not subject to tax withholding in the Cayman Islands.

The United States

DL Education was established in the United States and is inactive in the years ended September 30, 2013 and 2014. Therefore there is no income that is subject to the U.S. federal income taxes and state income taxes.

Hong Kong

CDEL Hong Kong and Pencil have not recorded tax provision for Hong Kong profits tax as the companies have not had assessable profits arising in or derived from Hong Kong.

China

The Enterprise Income Tax Law (the "EIT Law") of the PRC, which took effect on January 1, 2008, applies a uniform 25% enterprise income tax rate to all resident enterprise in China, including foreign invested enterprises.

Since 2008, Beijing Champion and Champion Technology qualified as "high and new technology enterprise strongly supported by the State" ("HNTE") under the EIT Law, and therefore, were entitled to preferential income tax rates. In October 2011, Beijing Champion and Champion Technology renewed the HNTE qualification, and therefore, were continually entitled to the preferential income tax rate of 15% in years 2011 through 2013. As of September 30, 2014, Beijing Champion and Champion Technology were in the process to renew HNTE qualification. The Group believes Beijing Champion and Champion Technology will most likely be qualified as HNTE and accordingly be entitled to a preferential income tax rate of 15% in the years from 2014 through 2016. As a result, the Group applied 15% to determine the tax liabilities for these two entities.

Since 2012, Zhengbao Yucai obtained HNTE qualification and therefore, was entitled to preferential income tax rate of 15% in years 2012 through 2014.

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16. INCOME TAX - continued

China - continued

Under the EIT Law and its implementation rules, a withholding tax at 10%, unless reduced by a tax treaty or arrangement, is applied on dividends received by non-PRC-resident corporate investors from PRC-resident enterprises, such as the Company's PRC subsidiaries. Undistributed earnings prior to January 1, 2008 are exempt from such withholding tax. Under the China-HK Tax Arrangement and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding rate of 5%. The Company believes that CDEL Hong Kong qualifies for the 5% withholding tax rate. CDEL Hong Kong's deferred tax liabilities related to potential withholding tax were US\$905 and US\$1,276 as of September 30, 2013 and 2014, respectively, on the undistributed earnings from its investment in the PRC entities generated after January 1, 2008. And the related income tax expenses were US\$634, US\$271 and US\$371 for the years ended September 30, 2012, 2013 and 2014, respectively.

In general, the PRC tax authorities have up to five years to conduct examinations of the PRC entities' tax filings. Accordingly, the PRC entities' tax years from 2009 to 2013 remain subject to examination by the tax authorities and US\$782 was reversed for the unpaid tax liability that was accrued before 2009 tax year.

Income before income taxes from continuing operations consisted of:

	Years ended September 30,		
	2012	2013	2014
	US\$	US\$	US\$
Non - PRC	(1,252)	(2,003)	(1,757)
PRC	11,825	19,364	29,218
	<u>10,573</u>	<u>17,361</u>	<u>27,461</u>

The current and deferred components of the income tax expense from continuing operations appearing in the consolidated statements of operations are as follows:

	Years ended September 30,		
	2012	2013	2014
	US\$	US\$	US\$
Current tax expense	2,074	3,107	3,988
Deferred tax expense	526	690	64
	<u>2,600</u>	<u>3,797</u>	<u>4,052</u>

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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16. INCOME TAX - continued

China - continued

The reconciliation of the effective tax rate and the statutory income tax rate applicable to PRC operations is as follows:

	Years ended September 30,		
	2012 US\$	2013 US\$	2014 US\$
Income before taxes	10,573	17,361	27,461
Income tax expense computed a applicable tax rates of 25%	2,643	4,340	6,865
Effect of different tax rates in different jurisdictions	255	440	357
Non-deductible expenses	59	75	94
Effect of tax holidays	(1,037)	(1,740)	(2,888)
Effect of valuation allowances	51	194	33
Effect of tax rate changes	—	237	—
Withholding tax on undistributed earnings	629	251	373
Income tax reversal	—	—	(782)
	<u>2,600</u>	<u>3,797</u>	<u>4,052</u>
Effective income tax rate	<u>24.59%</u>	<u>21.87%</u>	<u>14.76%</u>

The aggregate amount and per share effect of the tax holidays are as follows:

	Years ended September 30,		
	2012 US\$	2013 US\$	2014 US\$
The aggregate amount of tax holidays	1,037	1,740	2,888
The aggregate effect on basic and diluted net income per share:			
- Basic	<u>0.01</u>	<u>0.01</u>	<u>0.02</u>
- Diluted	<u>0.01</u>	<u>0.01</u>	<u>0.02</u>

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16. INCOME TAX - continued

China - continued

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred taxes from continuing operations are as follows:

	As of September 30,	
	2013	2014
	US\$	US\$
Current deferred tax assets		
Payroll payable	409	794
Accrued expenses	585	599
Allowance for doubtful accounts	518	546
Net operating loss carry-forwards	289	255
Total current deferred tax assets	1,801	2,194
Less: valuation allowance	(50)	(78)
Current deferred tax assets, net	1,751	2,116
Non-current deferred tax assets		
Intangible assets	48	19
Property, plant and equipment	148	140
Net operating loss carry-forwards	372	314
Total non-current deferred tax assets	568	473
Less: valuation allowance	(262)	(268)
Non-current deferred tax assets, net	306	205
Non-current deferred tax liabilities		
Intangible assets	78	39
Withholding tax on undistributed earnings	905	1,276
Total non-current deferred tax liabilities	983	1,315

The authoritative guidance requires that the Group recognizes the impact of a tax position in the financial statements if that position is more likely than not of being sustained upon audit by the tax authority, based on the technical merits of the position. Under PRC laws and regulations, arrangements and transactions among related parties may be subject to examination by the PRC tax authorities. If the PRC tax authorities determine that the contractual arrangements among related companies do not represent a price under normal commercial terms, they may make adjustments to the companies' income and expenses. A transfer pricing adjustment could result in additional tax liabilities.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

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16. INCOME TAX - continued

China - continued

As a result of the Group's assessment of its tax positions, the unrecognized tax benefit related to transfer price position prior to the year 2009 was recorded at US\$173, US\$177 and US\$177 as of September 30, 2012, 2013 and 2014, respectively. The subsequent changes of the unrecognized tax benefit were due to foreign currency adjustment.

Reconciliation of accrued unrecognized tax benefits is as follows:

	<u>Unrecognized tax benefits</u>
Balance - September 30, 2012	173
Foreign currency adjustment	<u>4</u>
Balance - September 30, 2013	177
Foreign currency adjustment	<u>—</u>
Balance - September 30, 2014	<u><u>177</u></u>

The Group does not anticipate any significant change in unrecognized tax benefits within 12 months from September 30, 2014.

In addition, uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The New EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the New EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties, occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income taxes, at a rate of 25%.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

17. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the PRC subsidiaries of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Group has no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits, which were expensed as incurred, were US\$3,199, US\$3,910 and US\$5,331 for the years ended September 30, 2012, 2013 and 2014, respectively. Employee benefits from continuing operations were US\$3,164, US\$3,910 and US\$5,331, and from discontinued operations were US\$35, US\$ nil and US\$ nil for the years ended September 30, 2012, 2013 and 2014, respectively.

Obligations for contributions to defined contribution retirement plans for full-time employee in Hong Kong, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognized as expenses in the consolidated statements of operations as incurred. The total amounts for such employee benefits were US\$2, US\$2 and US\$2 for the years ended September 30, 2012, 2013 and 2014, respectively, which were included in continuing operations.

18. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

Future minimum payments under non-cancelable operating leases related to offices, servers and bandwidth with initial terms of one-year or more consisted of the following at September 30, 2014:

	US\$
Years ending September 30,	
2015	3,389
2016	193
2017	11
2018	—
2019	—
	<u>3,593</u>

Payments under operating leases are expensed on the straight-line basis over the periods of their respective leases. The terms of the leases do not contain rent escalation or contingent rents. For the years ended September 30, 2012, 2013 and 2014, total rental expenses from continuing operations for all operating leases amounted to US\$3,346, US\$3,904 and US\$5,786, respectively. Rental expenses from discontinued operations for all operating leases amounted to US\$314, US\$ nil and US\$ nil, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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18. COMMITMENTS AND CONTINGENCIES - continued

Legal contingencies

The group is a party in potential claims arising in the ordinary course of business. The Group does not believe that the resolution of these matters will have a material effect on its financial position or results of operations.

Assets pledged as security for bank borrowing

As disclosed in Note 13, on December 6, 2013, CDEL Hong Kong entered into a loan agreement for a RMB100 million, approximately US\$16 million, term loan facility. The facility was secured by a term deposit of RMB100 million provided by Champion Technology, which was recorded as “restricted cash” on the consolidated balance sheet as of September 30, 2014.

19. SEGMENT REPORTING

The Group operates and manages its business as a single segment that includes primarily the provision of online and offline education services and selling of related products.

The revenues attributable to the different service and product groups are as follows:

	Years ended September 30,		
	2012	2013	2014
	US\$	US\$	US\$
Online education services	40,281	58,573	80,545
Books and reference materials	4,438	5,129	6,392
Offline education services	4,507	4,617	7,817
Others	2,876	3,041	2,442
	<u>52,102</u>	<u>71,360</u>	<u>97,196</u>

Online education services accounted for 77.3%, 82.1% and 82.9% of the Group’s total net revenue for the years ended September 30, 2012, 2013 and 2014, respectively. Any significant reduction in sales from this service could have a substantial negative impact on the Group’s results of operations.

Geographic disclosures:

As the Group primarily generates its revenues from customers in the PRC, no geographical segments are presented. The majority of the Group’s long-lived assets are located in the PRC.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued
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20. NET INCOME PER SHARE

Basic and diluted net income per share for each of the periods presented were calculated as follows:

	Years ended September 30,		
	2012 US\$	2013 US\$	2014 US\$
Numerator:			
Net income from continuing operations	7,973	13,564	23,409
Net income from discontinued operations, net of tax	236	—	—
Net income	8,209	13,564	23,409
- allocated to ordinary share - basic	8,209	13,554	23,392
- allocated to nonvested restricted share - basic	—	10	17
Denominator:			
Weighted average number of ordinary shares outstanding	133,996,737	135,174,562	139,613,967
Weighted average number of nonvested restricted share	—	103,082	102,754
Plus incremental weighted average ordinary shares from assumed exercise of share options using the treasury stock method	366,371	1,121,589	780,483
Weighted average ordinary shares outstanding used in computing diluted net income per share	<u>134,363,108</u>	<u>136,399,233</u>	<u>140,497,204</u>
Basic net income per share			
Basic from continuing operations	0.06	0.10	0.17
Basic from discontinued operations (net of tax)	—	—	—
Basic	<u>0.06</u>	<u>0.10</u>	<u>0.17</u>
Basic net income per nonvested restricted share			
Basic from continuing operations	—	0.10	0.17
Basic from discontinued operations (net of tax)	—	—	—
Basic	<u>—</u>	<u>0.10</u>	<u>0.17</u>
Diluted net income per share			
Diluted from continuing operations	0.06	0.10	0.17
Diluted from discontinued operations (net of tax)	—	—	—
Diluted	<u>0.06</u>	<u>0.10</u>	<u>0.17</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued FOR THE YEARS ENDED SEPTEMBER 30, 2012, 2013 AND 2014 (In thousands, except share and per share data, or otherwise noted)

21. SHARE INCENTIVE PLAN

Share options

On April 18, 2008, the Company's shareholders approved the "China Distance Education Holdings Limited Share Incentive Plan" (the "Prior Plan"), which permits the grant of share options and shares to its employees and non-employees (the "Participants"). The maximum number of ordinary shares that may be delivered pursuant to compensatory awards granted to the "Participants" under the Prior Plan should not exceed 11,652,556 ordinary shares of par value US\$0.0001 per share. On July 2, 2008, the Company's shareholders approved the "China Distance Education Holdings Limited 2008 Performance Incentive Plan" (the "New Plan"). Subject to any amendment of the New Plan, the maximum number of ordinary shares that may be issued pursuant to the New Plan is equal to 5% of the total number of ordinary shares issued and outstanding as of August 4, 2008, plus an automatic annual increase on October 1 of each calendar year commencing with October 1, 2008, by an amount equal to the lesser of (i) 1% of the total number of ordinary shares issued and outstanding on September 30 of the same calendar year, or (ii) such number of ordinary shares as may be determined by the Company's board of directors. The purpose of these share incentive plans is to promote the success of the Company and the interests of its shareholders by providing a means through which the Company may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of recipients with those of the Company's shareholders generally. The Prior Plan will expire on April 17, 2018. The New Plan will expire on the tenth anniversary date of August 4, 2008. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest within 4 years of continuous service and have 10-year contractual terms. Share awards generally vest for 1 year.

On May 21, 2013, the Company's board of directors and compensation committee approved to cancel 400,000 options that were granted to the five directors on December 2, 2008 with an exercise price per share equal to US\$0.615. Since these options were fully vested and the corresponding share-based compensation was recognized before the cancellation date, no expense related to such options was recorded in the year ended September 30, 2013.

By the same resolution of the board of directors on May 21, 2013, 720,900 options that were granted to the selected employees on November 17, 2009 with an exercise price per share equal to US\$1.87 were cancelled. This cancellation resulted in an immediate recording of the remaining share-based compensation of US\$146 in the year ended September 30, 2013.

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21. SHARE INCENTIVE PLAN - continued

Share options - continued

A summary of option activity as of September 30, 2014, and changes during the years ended September 30, 2014 are presented below:

<u>Share option granted to employees and non-executive directors</u>	<u>Number of shares</u>	<u>Weighted-average exercise price</u>	<u>Weighted-average remaining contractual term (years)</u>	<u>Aggregated intrinsic value</u>
Outstanding, September 30, 2013	1,579,732	US\$ 0.50	6.37	3,389
Exercised	(1,095,732)	US\$ 0.45		
Outstanding, September 30, 2014	<u>484,000</u>	US\$ 0.35	5.73	1,528
Exercisable at September 30, 2014	<u>484,000</u>	US\$ 0.35	5.73	1,528

A summary of the activities of the share option granted to non-employees as of September 30, 2014, and changes during the year ended September 30, 2014 are presented below:

<u>Share option granted to non-employees</u>	<u>Number of shares</u>	<u>Weighted-average exercise price</u>	<u>Weighted-average remaining contractual term (years)</u>	<u>Aggregated intrinsic value</u>
Outstanding, September 30, 2013	128,200	US\$ 0.495	4.55	275
Exercised	—			
Outstanding, September 30, 2014	<u>128,200</u>	US\$ 0.345	3.55	405
Exercisable at September 30, 2014	<u>128,200</u>	US\$ 0.345	3.55	405

On November 20, 2013, the Company declared a cash dividend of US\$0.15 per ordinary share on its outstanding shares to shareholders as of January 8, 2014. According to the terms of the Prior and New Plan, the exercise price was duly reduced by US\$0.15 for all of the outstanding options as of January 8, 2014. The change in exercise price incurred in the year ended September 30, 2014, and therefore was not reflected in the weighted-average exercise price as of September 30, 2013.

The total intrinsic value of options exercised during the year ended September 30, 2014 was US\$3,906. As of September 30, 2014, there was no unrecognized share-based compensation cost related to share options since the share options were all fully vested.

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21. SHARE INCENTIVE PLAN - continued

Nonvested restricted shares

On December 3, 2012, the Company granted 225,000 nonvested restricted shares of the Company to its directors, of which 100,000 nonvested restricted shares are vested immediately on the grant date and the rest is restricted on transferability and will be forfeited if the directors cease to provide requisite service to the Company. The restriction will be removed upon the vesting of the nonvested restricted shares on the first anniversary of the issuance day. Before the removal of such restrictions, the holders of the nonvested shares shall be entitled to all rights and privileges of those of ordinary shareholders, and shall be entitled to voting rights and dividends. Therefore, these nonvested shares are considered participating securities for the purpose of net earnings per share calculation. The grant-date fair value of a nonvested restricted share was US\$1.22, which was determined based on the closing price of the Company's ADSs on NYSE on December 3, 2012. This grant resulted in a total share-based compensation of US\$276, of which US\$122 was recognized immediately on the grant date and US\$154 was recognized ratably over the requisite service period of one year.

On December 3, 2013, the Company granted 125,000 nonvested restricted shares of the Company to its directors. These shares are restricted on transferability and will be forfeited if the directors cease to provide requisite service to the Company. The restriction will be removed upon the vesting of the nonvested restricted shares on the first anniversary of the issuance day. Before the removal of such restrictions, the holders of the nonvested shares shall be entitled to all rights and privileges of those of ordinary shareholders, and shall be entitled to voting rights and dividends. Therefore, these nonvested shares are considered participating securities for the purpose of net earnings per share calculation. The grant-date fair value of a nonvested restricted share was US\$4.58, which was determined based on the closing price of the Company's ADSs on NYSE on December 3, 2013. This grant resulted in a total share-based compensation of US\$573, which was recognized ratably over the requisite service period of one year.

A summary of the nonvested restricted shares activity is as follows:

	Number of Nonvested restricted shares outstanding US\$	Weight average grant-date fair value	Aggregated intrinsic value
Nonvested restricted shares outstanding at September 30, 2013	125,000	1.22	\$ 330
Granted	125,000	4.58	
Vested	<u>(125,000)</u>	<u>1.22</u>	
Nonvested restricted shares outstanding at September 30, 2014	<u>125,000</u>	<u>4.58</u>	<u>\$ 438</u>
Nonvested restricted shares expected to vest at September 30, 2014	<u>125,000</u>	<u>4.58</u>	<u>\$ 438</u>

The total fair value of shares vested during the years ended September 30, 2012, 2013 and 2014 were \$ nil, \$122 and \$153, respectively. The Company recorded share-based compensation expenses of \$21, \$250 and \$503 for the years ended September 30, 2012, 2013 and 2014, respectively. As of September 30, 2014, there was \$95 of share-based compensation related to nonvested shares that is expected to be recognized over a weighted average period of 0.2 year.

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21. SHARE INCENTIVE PLAN - continued

Share-based compensation expense

Total share-based compensation expense of share-based awards granted to employees, non-employees and non-executive directors recognized for the years ended September 30, 2012, 2013 and 2014 are as follows:

	As of September 30,		
	2012	2013	2014
	US\$	US\$	US\$
Cost of services	37	56	—
General and administrative expenses	88	522	503
Selling expenses	16	47	—
	141	625	503

22. CASH DIVIDEND

On November 16, 2011, the Company approved and declared a cash dividend of US\$0.12 per ordinary share on its total 135,565,361 outstanding shares as of the close of trading on December 15, 2011, resulting in payments totaling US\$16,268 to shareholders. Such dividend was recorded as a reduction to additional paid-in capital since the Company had cumulative deficits at the declaration date.

On November 13, 2012, the Company approved and declared a cash dividend of US\$0.12 per ordinary share on its total 135,409,521 outstanding shares as of the close of trading on December 7, 2012, resulting in payments totaling US\$16,056 to shareholders. Such dividend was recorded as a reduction to additional paid-in capital since the Company had cumulative deficits at the declaration date.

On November 20, 2013, the Company approved and declared a cash dividend of US\$0.15 per ordinary share on its total 136,409,633 outstanding shares as of the close of trading on January 8, 2014, resulting in payments totaling US\$20,258 to shareholders. Such dividend was recorded as a reduction against retained earnings to the extent of the balance as of November 20, 2013 retained by the Company's wholly owned subsidiaries in the PRC and then as a reduction against additional paid-in capital for the remainder.

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23. SUBSEQUENT EVENTS

On November 18, 2014, by a resolution of the board of directors, 2,800,000 share options were granted to certain employees for an exercise price per share at US\$3.74. These options shall vest subject to a four-year vesting schedule with 25% vesting in each year.

On November 18, 2014, the Company approved and declared a cash dividend of US\$0.20 per ordinary share on its outstanding shares to shareholders of record as of the close of trading on January 6, 2015.

On January 12, 2015, the Company granted 542,372 nonvested restricted shares under the New Plan. These nonvested restricted shares are subject to a four-year vesting period with 25% vesting on the first anniversary of the issuance date and the remaining 75% vesting in six substantially equal semi-annual installments.

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Zhengdong Zhu, certify that:

1. I have reviewed this annual report on Form 20-F of China Distance Education Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: January 26, 2015

By: /s/ Zhengdong Zhu

Name: Zhengdong Zhu

Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ping Wei, certify that:

1. I have reviewed this annual report on Form 20-F of China Distance Education Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: January 26, 2015

By: /s/ Ping Wei

Name: Ping Wei

Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Zhengdong Zhu, Chief Executive Officer of China Distance Education Holdings Limited (the "Company"), hereby certifies, to the best of his knowledge, that the Company's annual report on Form 20-F for the year ended September 30, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Date: January 26, 2015

By: /s/ Zhengdong Zhu
Name: Zhengdong Zhu
Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Ping Wei, Chief Financial Officer of China Distance Education Holdings Limited (the "Company"), hereby certifies, to the best of her knowledge, that the Company's annual report on Form 20-F for the year ended September 30, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Date: January 26, 2015

By: /s/ Ping Wei
Name: Ping Wei
Title: Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement No. 333-157129 on Form S-8 of our reports dated January 26, 2015 relating to the consolidated financial statements of China Distance Education Holdings Limited, its subsidiaries, its variable interest entity and the subsidiaries of its variable interest entity (collectively, the “Group”) and the effectiveness of the Group’s internal control over financial reporting, appearing in this Annual Report on Form 20-F of China Distance Education Holdings Limited for the year ended September 30, 2014.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Beijing, the People’s Republic of China

January 26, 2015

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China Distance Education Holdings Limited (the “**Company**”)
18th Floor, Xueyuan International Tower
1 Zhichun Road, Haidian District
Beijing 100083, People’s Republic of China

Ladies and Gentlemen:

We have acted as legal advisors as to the laws of the People’s Republic of China to the Company in connection with the filing by the Company with the United States Securities and Exchange Commission of an annual report on Form 20-F for the fiscal year ended September 30, 2014 and any amendments thereto (the “Annual Report”).

We hereby consent to the use and reference to our name and our opinions and views in the Annual Report. We further consent to the filing of this letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the United States Securities Act of 1933, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Jingtian & Gongcheng

Jingtian & Gongcheng