

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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from to

OR

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

Date of event requiring this shell company report

Commission file number: 001-33910

ATA Creativity Global

(Exact Name of Registrant as Specified in Its Charter)

Not applicable

(Translation of Registrant's Name Into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

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

(Address of Principal Executive Offices)

Amy Tung

Chief Financial Officer

ATA Creativity Global

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

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

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

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

63,459,214 common shares

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

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

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

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

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

Yes No

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INTRODUCTION

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

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

This annual report on Form 20-F includes (i) our audited consolidated statements of comprehensive income (loss) for the nine months ended December 31, 2017 and the fiscal years ended December 31, 2018 and 2019, (ii) our unaudited financial data of comprehensive income (loss) for the nine months ended December 31, 2016 and the twelve months ended December 31, 2017, and (iii) our audited consolidated balance sheets as of December 31, 2018 and 2019. Each of our American depositary shares, or ADSs, represents two common shares. Our ADSs are listed on the Nasdaq Global Market under the symbol “AACG.”

FORWARD-LOOKING STATEMENTS

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

- our goals and strategies;
- our future prospects and market acceptance of our products and services;
- our future business development and results of operations;
- our plans for mergers and acquisitions;
- the impact of the sale of the ATA Online Business;
- the impact of the Huanquiuyimeng Acquisition;
- projected revenues, profits, earnings and other estimated financial information;
- our plans to expand and enhance our products and services;
- the potential market size and growth of our products and services;
- competition in the market for our products and services;
- Chinese laws, regulations and policies, including those applicable to the education industry, internet content providers and foreign exchange; and
- the impact of the outbreak of the coronavirus disease (“COVID-19”) and other pandemic or natural disaster.

These forward-looking statements involve various risks, assumptions and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in Item 3.D. of this annual report, “Key information — Risk Factors” and elsewhere in this annual report.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. All forward-looking statements included herein attributable to us or other parties or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section and under the heading “Risk Factors,” below. Except to the extent required by applicable laws and regulations, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

PART I.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

Selected Consolidated Financial Data

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

On August 16, 2018, we completed the sale of the ATA Online Business, which historically operated our computer-based testing services, online education services and other related services. Consequently, our computer-based testing services, online education services and other related services were accounted for as discontinued operations in accordance with U.S. GAAP in our consolidated financial statements. As required by U.S. GAAP, we have reclassified the comparative operating results for the discontinued operations for the nine months ended December 31, 2016 and 2017, the twelve months ended December 31, 2017, the fiscal year ended March 31, 2017 and the fiscal year ended December 31, 2018. We have not included the selected financial data for the fiscal year ended March 31, 2016, as providing such information reflecting our discontinued operations on a basis that is consistent with the consolidated financial information presented for the periods ended March 31, 2017, December 31, 2017, 2018 and 2019, would take a significant amount of time and cause us to incur unreasonable effort or expense.

In 2019, we acquired 100% equity interests of Huanquiyimeng, a leading provider of educational services for students in China who are interested in applying for overseas art study. We consolidated the financial statements of Huanquiyimeng and its subsidiaries since August 6, 2019 (the "Acquisition Date") in this annual report.

The following information should also be read in conjunction with Item 5. “Operating and Financial Review and Prospects.” Our audited consolidated financial statements are prepared in accordance with U.S. GAAP.

For the Fiscal Year Ended March 31,	For the Nine Months Ended December 31,		For the Twelve Months Ended December 31,	For the Fiscal Year Ended December 31,		
	2016	2017	2017	2018	2019	
	RMB	RMB	RMB	RMB	RMB	US\$

(Unaudited) (Unaudited)
(In thousands, except for per share and per ADS data)

Selected Consolidated Statements of Comprehensive Income (Loss) Data:

Net revenues	8,831	6,628	5,186	7,389	1,339	97,770	14,044
Gross profit (loss)	4,424	3,392	1,400	2,432	(2,912)	35,856	5,150
Total operating expenses	61,228	47,212	60,088	74,104	68,672	154,216	22,152
Other operating income, net	—	—	—	—	3,793	588	85
Loss from continuing operations	(56,804)	(43,820)	(58,688)	(71,672)	(67,791)	(117,772)	(16,917)
Share of losses of equity method investments	(2,838)	(2,274)	(1,395)	(1,959)	—	(8)	(1)
Impairment loss of long-term investments	—	—	(15,217)	(15,217)	(6,381)	(26,815)	(3,852)
Change in fair value of long-term investment	—	—	—	—	2,750	—	—
Income tax expense (benefit)	1,518	—	(2,109)	(591)	—	(7,150)	(1,027)
Loss from continuing operations, net of income taxes	(59,741)	(45,036)	(72,804)	(87,509)	(68,053)	(134,112)	(19,264)
Discontinued operations:							
Income (loss) from operations of discontinued operations, net of income taxes	49,772	88,980	100,641	61,433	(18,951)	—	—
Gain from disposal of discontinued operations, net of income taxes	—	—	—	—	937,606	4,894	703
Income from discontinued operations, net of income taxes	49,772	88,980	100,641	61,433	918,655	4,894	703
Net income (loss)	(9,969)	43,944	27,837	(26,076)	850,602	(129,218)	(18,561)
Net loss attributable to redeemable non-controlling interests from continuing operations	—	—	(1,445)	(1,445)	(3,181)	(2,821)	(405)
Net loss attributable to non-redeemable non-controlling interests from continuing operations	—	—	—	—	(1,132)	(4,143)	(595)
Net loss attributable to non-redeemable non-controlling interests from discontinued operations	(253)	(34)	(352)	(571)	(11)	—	—
Net income (loss) attributable to ATA Creativity Global	(9,716)	43,978	29,634	(24,060)	854,926	(122,254)	(17,561)
Net loss from continuing operations attributable to ATA Creativity Global	(59,741)	(45,036)	(71,359)	(86,064)	(63,740)	(127,148)	(18,264)
Net income from discontinued operations attributable to ATA Creativity Global	50,025	89,014	100,993	62,004	918,666	4,894	703
Basic and diluted earnings (losses) per common share attributable to ATA Creativity Global	(0.21)	0.96	0.48	(0.69)	18.25	(2.52)	(0.36)
Basic and diluted earnings (losses) per ADS ⁽¹⁾ attributable to ATA Creativity Global	(0.42)	1.92	0.96	(1.38)	36.50	(5.04)	(0.72)

For the Fiscal Year Ended March 31,	For the Nine Months Ended December 31,		For the Twelve Months Ended December 31,	For the Fiscal Year Ended December 31,		
2017	2016	2017	2017	2018	2019	
RMB	RMB	RMB	RMB	RMB	RMB	US\$
	(Unaudited)		(Unaudited)			

(In thousands, except for per share and per ADS data)

Basic and diluted losses from continuing operations per common share attributable to ATA Creativity Global	(1.31)	(0.98)	(1.72)	(2.04)	(1.81)	(2.62)	(0.37)
Basic and diluted earnings from discontinued operations per common share attributable to ATA Creativity Global	1.10	1.94	2.20	1.35	20.06	0.10	0.01
Basic and diluted loss from continuing operations per ADS ⁽¹⁾ attributable to ATA Creativity Global	(2.62)	(1.96)	(3.44)	(4.08)	(3.62)	(5.24)	(0.74)
Basic and diluted earnings from discontinued operations per ADS ⁽¹⁾ attributable to ATA Creativity Global	2.20	3.88	4.40	2.70	40.12	0.20	0.02
Dividends declared per common share	—	—	1.334	1.334	20.384	—	—
Weighted average common shares outstanding							
Basic	45,772,916	45,769,707	45,793,127	45,790,562	45,796,886	50,915,710	
Diluted	45,772,916	45,769,707	45,793,127	45,790,562	45,796,886	50,915,710	

(1) Each ADS represents two common shares.

	As of March 31,		As of December 31,		
	2017	2017	2018	2019	
	RMB	RMB	RMB	RMB	US\$
(In thousands)					
Selected Consolidated Balance Sheets Data:					
Cash and cash equivalents	37,196	53,478	190,586	154,198	22,149
Current assets of discontinued operations	245,103	310,014	—	—	—
Total current assets	295,945	366,816	213,395	183,560	26,367
Long-term investments	81,051	70,022	66,391	45,726	6,568
Intangible assets, net	3,968	5,746	17,123	135,600	19,478
Goodwill	—	—	—	200,479	28,797
Right-of-use assets	—	—	—	40,786	5,859
Other non-current assets	34,443	4,004	800	16,403	2,356
Non-current assets of discontinued operations	59,771	79,551	—	—	—
Total assets	519,840	568,442	335,139	676,090	97,115
Accrued expenses and other payables	50,681	28,019	18,112	47,747	6,858
Lease liabilities-current	—	—	—	20,556	2,953
Deferred revenues	1,418	2,026	1,634	171,880	24,689
Current liabilities of discontinued operations	47,482	111,721	—	—	—
Total current liabilities	103,030	141,766	19,746	264,816	38,038
Non-current liabilities of discontinued operations	1,732	25,299	—	—	—
Other non-current liabilities	—	—	—	12,500	1,796
Total liabilities	127,383	167,065	19,746	325,558	46,764
Mezzanine equity-redeemable non-controlling interests	—	36,304	39,209	44,896	6,449
Common shares	3,534	3,535	3,535	4,692	674
Retained earnings (accumulated deficits)	38,019	25,885	(71,889)	(200,151)	(28,750)
Total shareholders' equity attributable to ATA Creativity Global	391,377	364,730	275,817	300,140	43,113
Total shareholders' equity	392,457	365,073	276,184	305,635	43,902

Exchange Rate Information

We conduct our business primarily in China and substantially all of our revenues and expenses are denominated in Renminbi. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in the City of New York for cable transfers of Renminbi per U.S. dollars certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB 6.9618 to US\$1.00, which was the noon buying rate in effect as of December 31, 2019. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

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

The ATA Online Business historically represented the principal source of revenues and profit for the Company. On August 16, 2018, we completed the sale of the ATA Online Business which was consequently reclassified as discontinued operations. In 2019, we completed the acquisition of 100% equity interests of Huanquiuyimeng, a leading provider of educational services for students in China interested in applying for overseas art study. After the Huanquiuyimeng Acquisition, our business operations primarily include portfolio training services, educational travel services, overseas study counseling services, other educational services, K-12 education assessment and other services. Given that we have only a short operating history for portfolio training services, educational travel services, overseas study counseling services and other educational services after the acquisition, we cannot assure you that we will be able to generate sufficient net income from our business operations to sustain our continued operations and expansion.

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

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

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

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

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

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

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

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

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

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

Only around 15% of our teachers are our full-time employees, and the rest are academics from universities and colleges or designers of private studios within their respective specializations who typically work for us on a part-time basis. If our part-time teachers fail to deliver quality courses as a result of inadequate devotion of their time and energy to our courses, our business may also be adversely affected. Furthermore, China promulgated certain regulations in November 2016 requiring post-secondary teachers to obtain approval from their employers prior to engaging in part-time jobs. If these part-time teachers choose to, or are forced to, discontinue their relationship with us to comply with such regulations, we will need to seek new teachers to replace them. We cannot assure you we will be able to find replacements at a reasonable cost on a timely basis, if at all.

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

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

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

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

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

We have established 22 training centers in China as of April 22, 2020. We established our first one in 2012. We may continue to expand our operations in different geographic locations in China and abroad. Our expansion has resulted, and will continue to result, in substantial demands on our management, faculty and operational, technological and other resources. Our expansion will also place significant demands on us to maintain the consistency of our teaching quality and our culture to ensure that our brand does not suffer as a result of any decreases in our teaching quality. To manage and support our growth, we must continue to improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain additional qualified teachers, management personnel and other administrative and sales and marketing personnel, particularly as we expand into new markets. We cannot assure you that we will be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified teachers and management personnel and integrate new training centers into our operations. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse impact on our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We provided loans of US\$2.0 million and advances of RMB 7.5 million to Beijing Biztour. If Beijing Biztour and its affiliates fail to repay such loans, our results of operations may be adversely affected.

On March 26, 2018, we entered into a framework agreement for the acquisition of 100% of the shares of Beijing Biztour International Travel Service Co., Ltd. and its affiliates, or Beijing Biztour, a provider of international educational study tour and travel services for students in China. Under the framework agreement, we provided US\$2.0 million in loans, valid for one year at an annual interest rate of 8%, to Beijing Biztour in support of growing its operations. On March 6, 2019, we terminated the acquisition of Beijing Biztour because Beijing Biztour and its shareholders did not satisfy certain closing conditions for such acquisition. Beijing Biztour agreed to repay the loans and interest accrued thereon to us and the de facto controller of Beijing Biztour provided a full joint liability guarantee and agreed to mortgage certain real estate properties owned by him as security for the repayment. Such loans matured on April 6, 2019 and were extended to September 30, 2019. Additionally, the Company had also advanced RMB 7.5 million to fund the operation of Beijing Biztour from August 2018, which was also extended to September 30, 2019. On October 1, 2019, both the loans and the advances became due again and remain unpaid as of the date of this annual report. The personal guarantee made and the real estate property mortgage agreed by the de facto controller of Beijing Biztour with respect to such loans and advances may not be sufficient for full repayment. In our consolidated financial statements for the fiscal year ended December 31, 2019, we recorded the foregoing loans as loan receivable and the foregoing advances as other receivables, and after assessing the collectability of such receivables, we used the fair value of real estate property adjusted by the estimated costs to sell to measure impairment and recorded a provision of RMB 17.4 million. If Beijing Biztour and its affiliates fail to repay the loans and interest accrued thereon and the advances to us in full or at all, we may incur substantial costs and spend additional time and efforts to enforce such repayments, and may also have to rely on legal remedies under PRC law, and we cannot guarantee a full repayment.

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

As part of our business strategy, we previously made strategic investments and acquisitions in complementary businesses. For example, in addition to the Huanqiyuimeng Acquisition, in April 2016, we made a strategic investment in Beijing Empower Education Online, Co., Ltd., or EEO, an online education company that operates web-based virtual classroom platforms in China. In June 2016, we made a strategic investment in ApplySquare Education & Technology Co., Ltd., or ApplySquare, a company that provides college and graduate school application assistance services. In July 2016, we made a strategic investment in Beijing GlobalWisdom Information Technology Co., Ltd., or GlobalWisdom, a company that focuses on China's online language education services. In February 2017, we entered into a partnership with Nantong MOOC-CN Investment Center (Limited Partnership), or MOOC-CN Investment, a company that focuses on the development of K-12 education assessment tools and content. In April 2017, we made an additional investment of RMB 5.5 million in EEO. In December 2018, we made a strategic investment in Beijing Xiaozhi Education Technology Co., Ltd. or Xiaozhi, which focuses on delivering online and offline training services for teachers and instructors in various industries and areas. We cannot assure you that any particular acquisition or investment will produce the intended benefits or synergies. In the fiscal years ended December 31, 2018 and 2019, we recorded impairment losses of RMB 6.4 million and RMB 5.9 million (\$0.9 million), respectively, related to the investments in GlobalWisdom as GlobalWisdom failed to meet the expected milestones and operational forecasts and encountered a shortage of working capital resulting from continuous negative operating cash flows in the respective periods. In the fiscal year ended December 31, 2019, we recorded an impairment loss of RMB 20.9 million (\$3.0 million) related to the investment in Applysquare as Applysquare failed to meet the expected milestones and operational forecasts and encountered a shortage of working capital resulting from continuous negative operating cash flows.

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

There are other risks associated with acquisitions, including:

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

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

Because we do not have any business liability, disruption or litigation insurance coverage for our operations in China and have limited insurance coverage with respect to our educational travel services, any business disruption or litigation we experience might result in our incurring substantial costs and diverting significant resources to handle such disruption or litigation.

The insurance industry in China is not fully developed. Insurance companies in China offer limited business insurance products. While business disruption insurance may be available to a limited extent in China, we have determined that the risks of disruption and the difficulties and costs associated with acquiring such insurance render it commercially impractical for us to have such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation might result in our incurring substantial costs and the diversion of resources.

We could be held liable for accidents that occur at indoor or outdoor facilities where we organize our educational travel programs and temporary housing facilities that we lease for our students from time to time. In the event of on-site food poisoning, personal injuries, fires or other accidents suffered by students or other people, we could face claims alleging that we were negligent, provided inadequate supervision or were otherwise liable for any injuries. We are exposed to various risks associated with our educational travel business and operations, and we have limited insurance coverage. Any successful liability claims against us due to injuries suffered by our students or other people during our educational travel programs could adversely affect our reputation and our financial results. Even if unsuccessful, such claims could cause unfavorable publicity, require substantial cost to defend and divert the time and attention of our management.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The economy of China has been experiencing significant growth, leading to inflation and increased labor costs. According to the National Bureau of Statistics of China, the changes in China's consumer price index was 1.6%, 2.1% and 2.9% in the years 2017, 2018 and 2019. China's overall economy and the average wage in China are expected to continue to grow. As a result, the average wage level for our employees and part-time teachers has also increased in recent years. Future increases in China's inflation and material increases in the cost of labor may diminish our competitive advantage and, unless we are able to pass on these increased labor costs to our students by increasing prices for our services, our profitability and results of operations could be materially and adversely affected. The outbreak of COVID-19 may have a material adverse impact on the general economic outlook, economic growth and business sentiment (see "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People's Republic of China— The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results"), and may in turn influence the labor cost. Additionally, certain restrictive measures, including quarantining policies and travel restrictions, implemented by China and other countries in response to the outbreak of COVID-19 may impose obstacles for us to recruit teachers and operational staff suitable for our business, and may in turn influence our labor cost. Such influence, if any, however, remains unclear at the date of this annual report.

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

We are subject to provisions of the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual reports on Form 20-F. Our management concluded that our internal control over financial reporting is effective as of December 31, 2019. We acquired Huanqiyimeng in August 2019 and as permitted by applicable rules, our management excluded from our assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, Huanqiyimeng's internal control over financial reporting associated with total assets of RMB 436.6 million and total revenues of RMB 91.4 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2019. We are in the process of evaluating the existing controls and procedures of Huanqiyimeng and integrating Huanqiyimeng into our internal control over financial reporting. If we fail to maintain effective internal control over financial reporting in our existing or newly acquired businesses, our management may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Our failure to maintain effective internal control over financial reporting could result in a loss of investor confidence in the reliability of our reporting processes, which could materially and adversely affect the trading price of our ADSs.

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

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

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

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

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

In June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress that would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act proposes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges such as the Nasdaq Global Market of those issuers included on the SEC's list that have been out of compliance for three consecutive years. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could increase uncertainty for affected issuers, including us, and the market price of our ADSs could be adversely affected. It is unclear if this proposed legislation would be enacted.

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

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

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

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

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

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

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

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

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the taxable year ended December 31, 2019. PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets and, since the value of our assets is to be determined in large part by reference to the market prices of our ADSs and common shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC for any future taxable year.

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

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

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

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

Risks Relating to Regulations of Our Business

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

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

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

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

We have adopted a holding company structure, and our holding companies rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for their cash requirements, including the funds necessary to service any debt we may incur or financing we may need for operations other than through our Chinese subsidiaries. Chinese legal restrictions permit payments of dividends by our Chinese subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC GAAP. Our Chinese subsidiaries are also required under Chinese laws and regulations to allocate at least 10% of their after-tax profits determined in accordance with PRC GAAP to statutory reserves until such reserves reach 50% of the company's registered capital. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As of December 31, 2019, our Chinese subsidiaries allocated RMB 25.7 million (\$3.7 million) to the general reserve fund, which is restricted for distribution to the Company. We are in full compliance with PRC laws and regulations relating to such allocations. Any limitations on the ability of our Chinese subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

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

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

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

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

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

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

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

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

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

In order to execute our business strategy, we must invest funds in our Chinese subsidiaries and consolidated variable interest entity through loans or capital contributions. Under applicable Chinese laws, any loan made by us to ATA Education and Huanquiyimeng, each a foreign-invested enterprise, cannot exceed statutory limits tied to each company’s registered capital and total investment as approved by the Ministry of Commerce or its local counterpart, and all such loans must be registered with China’s State Administration of Foreign Exchange, or SAFE, or its local counterpart. According to a notice issued by the People’s Bank of China regarding foreign debt on January 11, 2017, the maximum amount of foreign debt that each of our PRC subsidiaries or consolidated variable interest entity or other PRC domestic entities is allowed to borrow is two times of their respective net assets. Pursuant to this notice and other PRC laws and regulations regarding foreign debt, within a one-year grace period starting from January 11, 2017, the statutory limit for the total amount of foreign debt of a foreign-invested company, which is subject to its own election, is either the difference between the amount of total investment and the amount of registered capital as approved by the Ministry of Commerce or its local counterpart, or two times of their respective net assets. With respect to our consolidated variable interest entity or other domestic PRC entities, the limit for the total amount of foreign debt is twice of their respective net assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Substantially all of our revenues and operating expenses are denominated in Renminbi. Restrictions on currency exchange imposed by the Chinese government may limit our ability to utilize cash generated from sales of our services in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies. Under current Chinese regulations, Renminbi may be freely converted into foreign currency for payments relating to "current account transactions," which include, among other things, dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Cash generated from sales of our services in China can be converted into foreign currency to pay salaries of employees located outside of China upon the employee completing certain registration procedures. Cash generated from sales of our services in China can also be used to pay off debt generated outside of China, provided that the Company complies with the applicable foreign debt registration or approval requirements. Although the Renminbi has been fully convertible for current account transactions since 1996, we cannot assure you that the relevant Chinese government authorities will not limit or eliminate our ability to purchase and retain foreign currencies for current account transactions in the future.

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

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

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

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

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

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

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

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

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

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

Additionally, in late 2019, there has been an outbreak of respiratory disease caused by COVID-19, which has expanded widely within China and globally. The new strain of COVID-19 is considered highly contagious and may pose a serious public health threat. On January 23, 2020, the PRC government announced the lockdown of Wuhan City in an attempt to quarantine the city, followed by draconian measures imposed by China in various regions of the nation including travel restrictions in major cities. The outbreak of COVID-19 has adversely affected our business operations in certain aspects. For example, we temporarily closed our training centers and offices in China, and even after re-opening of some of the offices, relevant local provincial authorities did not allow full operation to avoid the spread of disease. As a response to the situation, we have implemented certain practical plans, including converting some of our offline courses to online courses and delivering them to students through a third party platform since February 2020. In recent weeks, the number of newly confirmed COVID-19 cases in China has gradually declined, as a result of which, the business activities in China's major cities have started to resume. As such, we will re-open our training centers and offices as soon as it is permitted to do so by relevant governmental authorities.

However, as the COVID-19 continues to expand globally, and has posed a serious public health threat to various countries and territories as of the date of this annual report, a number of countries and territories have implemented quarantining policies and travel restrictions from and to seriously affected cities or areas. Those measures, though temporary in nature, may continue and increase depending on developments in the coronavirus outbreak. As a result, our ability to deliver our services, particularly our educational travel services, may be adversely impacted and the costs for us to deliver our services may increase. Some students may delay or cancel their overseas study or travel plans due to these restrictive measures or safety considerations, and thus the demand for our services, especially demand for our educational travel services, overseas study counseling services and portfolio training services may decrease. In addition, due to limited offline sales and marketing activities and less referrals from overseas study agents since the outbreak of COVID-19, we have to rely more on search engine marketing and other online marketing, which has increased our marketing costs and lowered our investment return rates. The COVID-19 outbreak did not have a material adverse impact on our business operations for the fiscal year ended December 31, 2019, it may, however, have material adverse impacts on our business operations for the fiscal year ended December 31, 2020.

We have not adopted any written policies to combat the outbreak of COVID-19, or any future outbreak of SARS, avian flu, coronavirus or other epidemics. We are uncertain as to when the outbreak of COVID-19 will be completely controlled in China and globally, and the prolonged adverse effects of COVID-19 and any other adverse public health developments may result in the prolonged closure of our training centers or our offices while we remain obligated to pay rent and other expenses for these facilities, the quarantining of infected or potentially infected students, teachers, or employees and the disinfection of the affected properties along with the temporary suspension of our operations, or the cancellation or deferments of student enrollment to avoid the spread of disease. If such occurrences continue without being effectively controlled in the future, our business operations and financial performance may be materially and adversely affected as a result of various factors, such as changes in general economic outlook, slowdowns in economic growth and negative business sentiment, and measures taken by government authorities which may restrict our operations in China and abroad.

Risks Related to Our Corporate Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our ADSs

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

The trading prices of our ADSs are volatile, and this volatility may continue. For instance, between January 1, 2019 and December 31, 2019, our ADS prices as reported on Nasdaq ranged between a low of \$0.9002 and a high of \$4.500. Numerous factors that are beyond our control may cause the market price of our ADSs to fluctuate significantly. In particular, the performance and fluctuation of the market prices of other educational services providers with business operations mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs. The trading performance of these Chinese companies' securities at the time of or after their offerings may affect the overall investor sentiment towards Chinese companies listed in the United States and consequently may impact the trading performance of our ADSs. These broad market and industry factors may significantly affect the market price and volatility of our ADSs, regardless of our actual operating performance.

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

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

Although our ADSs are traded on the Nasdaq Global Market, the trading volume of our ADSs has generally been very low. Reported average daily trading volume of our ADSs for the three-month period ended March 31, 2020 was approximately 23,026 ADSs. Limited trading volume will subject our ADSs to greater price volatility and may make it difficult for our shareholders to sell their ADSs at a price that is attractive to them, if at all.

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

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

As of April 22, 2020, there were 63.5 million common shares outstanding. In addition, there were issued options to purchase an aggregate of 2,101,290 common shares, including options to purchase an aggregate of 153,332 common shares immediately exercisable as of April 22, 2020. All of the ADSs sold in our initial public offering are freely tradable without restriction or further registration under the U.S. Securities Act of 1933, as amended, or the Securities Act, unless held by our “affiliates” as that term is defined in Rule 144 under the Securities Act. If ADSs representing the shares held by our affiliates or that were privately placed are registered for resale or sold in compliance with Rule 144, such sales or the perception of the possibility of such sales may depress the trading prices of our ADSs. In addition, the common shares subject to options for the purchase of our common shares will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, and Rules 144 and 701 under the Securities Act. If these additional shares are sold, or if it is perceived that they will be sold in the public market as ADSs, the trading price of our ADSs could decline.

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

One of our existing shareholders, Kevin Xiaofeng Ma, beneficially owns approximately 39.6% of our outstanding common shares as of April 22, 2020. Accordingly, Mr. Ma has had, and may continue to have, significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, the election of directors and other significant corporate actions. In addition, without the consent of Mr. Ma, we could be prevented from entering into transactions that could be beneficial to us.

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

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

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

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

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

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

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

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

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

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our common shares underlying your ADSs at shareholders' meetings if you do not vote, unless we notify the depositary that:

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

The effect of this discretionary proxy is that, absent the situations described above, you cannot prevent our common shares underlying your ADSs from being voted and it may make it more difficult for shareholders to influence the management of our company. Holders of our common shares are not subject to this discretionary proxy.

You may not receive distributions on our common shares or any value for them if such distribution is illegal or if any required government approval cannot be obtained in order to make such distribution available to you.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian for our ADSs receives on our common shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our common shares your ADSs represent. However, the depositary is not responsible to make a distribution available to any holders of ADSs if it decides that it is unlawful to make such distribution. For example, it would be unlawful to make a distribution to a holder of ADSs if it consisted of securities that required registration under the Securities Act but that were not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, common shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our common shares or any value for them if it is unlawful or unreasonable from a regulatory perspective for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by ADRs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or any government or government body, or under any provision of the deposit agreement, or for any other reason.

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

In June 2003, we established a Chinese joint venture company, ATA Learning (Beijing) Inc., or ATA Learning, with Yinchuan Economic and Technological Development Zone Investment Holding Co. Ltd., or Yinchuan Holding. Initially, we held a 40% equity interest in ATA Learning. In May 2005, we acquired Yinchuan Holding's 60% equity interest and converted ATA Learning into a wholly-owned subsidiary of ATA BVI.

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

In February 2009, we completed the acquisition of the entire equity of Beijing JDX, and JDX Holdings Limited, or JDX BVI, which are related companies incorporated in China and the British Virgin Islands, respectively, engaged in the development and marketing of software for computer-based tests. JDX BVI was dissolved in October 2009.

In November 2013, we completed the acquisition of the entire equity interest of Xing Wei Institute (Hong Kong) Limited, or Xing Wei, a private education technology company that provides training solutions as well as online and mobile training platforms for corporations in China.

In connection with the listing of our testing service business on the National Equities Exchange and Quotations (also known as the New Third Board), we acquired the entire equity interest of ATA Online through ATA Learning and Zhongxiao Zhixing Education Technology (Beijing) Limited, or Zhongxiao Zhixing, in May 2015, with ATA Learning owning 90% and Zhongxiao Zhixing owning 10% of ATA Online's share equity.

In May 2016, ATA Testing acquired from ATA Inc. the entire equity interest of Beijing JDX, which changed its company name to ATA Learning Data & Technology (Beijing) Limited, or ATA Data, in August 2016. In June 2017, MOOC-CN Investment and an individual shareholder acquired a total of 20% of the equity interests in ATA Data. This investment helped us expand into the K-12 education assessment market, with a particular focus on the development of K-12 education assessment tools and content. ATA Data changed its company name to Muhua Shangce Learning Data & Technology (Beijing) Limited, or Muhua Shangce, in connection with this investment. After the investment, ATA Testing, MOOC-CN Investment and the individual shareholder each holds 56.0%, 18.0% and 2.0% of the equity interests in Muhua Shangce respectively, with the remaining 24% of the equity interests being transferred to a limited partnership named Ningbo Meishan Bonded Port Area Zunming Investment Management Center (Limited Partnership) in December, 2018. In September 2019, MOOC-CN Investment further invested RMB 5.0 million to Muhua Shangce. Immediately following that investment, our equity interest in Muhua Shangce was reduced from 56.0% to 54.6%.

On August 16, 2018, we completed the sale of 100% equity interests of ATA Online held by us through ATA Learning and Zhongxiao Zhixing for total consideration of US\$200.0 million in cash to a group of buyers, among which, 17.5% of the equity interests of ATA Online were transferred to two entities affiliated with funds managed by CDH Investments, a major Chinese alternative asset management firm based in Beijing, or the CDH Entities, for consideration of US\$35.0 million, 16.5% of the equity interests of ATA Online were transferred to three holding entities controlled by certain management members of ATA Online, or the Management Entities, for consideration of US\$33.0 million, 15% of the equity interest of ATA Online were transferred to Zhuhai Lihonghuaying Equity Investment Partnership (LP), a China-based entity principally engaged in private equity investments, or the LHHY Entity, for consideration of US\$30.0 million, and 51% of the equity interests of ATA Online were transferred to New Beauty Holdings, a company controlled by Kevin Xiaofeng Ma, for consideration of US\$102.0 million. As a result of the sale of ATA Online, we no longer hold, directly or indirectly, any interest in ATA Online and its subsidiaries, ATA Learning and Zhongxiao Zhixing. As of the date of this annual report, the sale of the ATA Online Business is being challenged by our two shareholders, the details of which are described in "Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings".

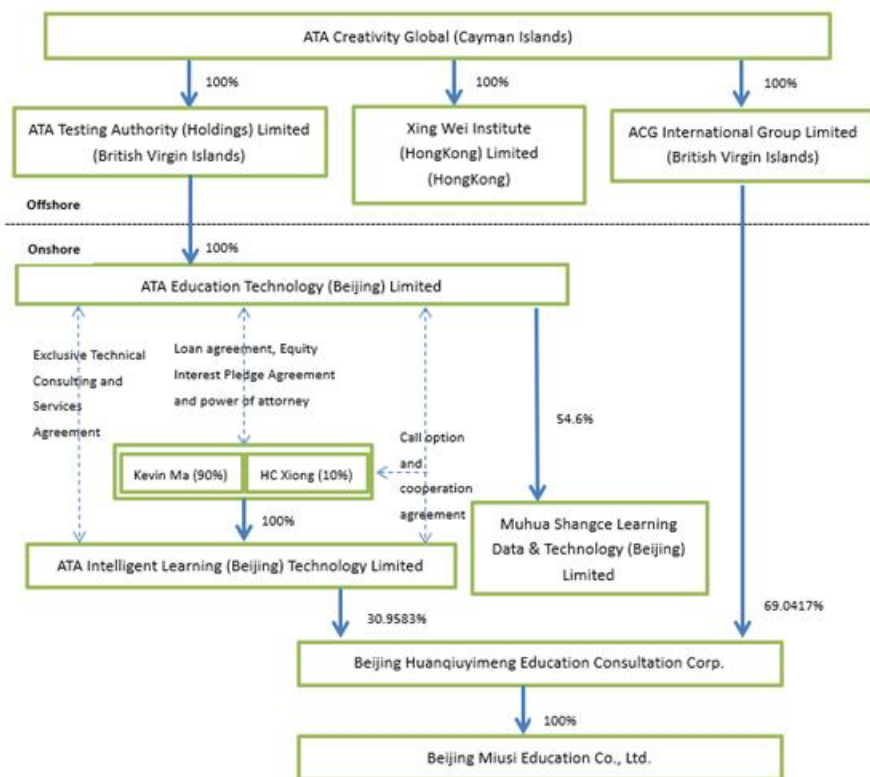
On February 18, 2019, ATA Testing changed its company name to ATA Education Technology (Beijing) Limited, or ATA Education, in connection with our strategic change from computer-based testing to focusing on providing international education services and other related services.

In 2019, we completed the acquisition of 100% equity interests of Huanquiyimeng, a leading provider of educational services for students in China interested in applying for overseas art study.

On September 13, 2019, we changed our company name from “ATA Inc.” to “ATA Creativity Global” in connection with the Huanquiyimeng Acquisition. On October 17, 2019, we changed the trading symbol for our ADSs listed on the Nasdaq Global Market from “ATAI” to “AACG.”

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

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



Notes:

- (1) Huanquiyimeng is mainly engaged in providing portfolio training, overseas study counseling and other educational services, among which, portfolio training and overseas study counseling services are delivered through its 17 branches that operate 19 training centers around China.
- (2) Huanquiyimeng delivers its services in another 3 training centers in Sichuan province, Chongqing and Dalian through its majority owned subsidiaries, Sichuan Huanquiyilian Education Consultation Co. Ltd., or Sichuan Huanquiyilian, in which Huanquiyimeng holds 60% equity interests, Chongqing Huanquiyilian Education Information Consultation Co., Ltd., subsidiary of Sichuan Huanquiyilian, in which Huanquiyimeng indirectly holds 54% equity interests, and Dalian Huanquiyimeng Education Consultation Co., Ltd., in which Huanquiyimeng holds 70% equity interests.
- (3) Beijing Miusi Education Co., Ltd. is mainly engaged in providing educational travel services.

We are a Cayman Islands exempted company limited by shares, operating under the Companies Law of the Cayman Islands. Our principal executive offices are located at 1/F East Gate, Building No. 2, Jian Wai Soho, No. 39 Dong San Huan Zhong Road, Chao Yang District, Beijing, China, and our telephone number is (86-10) 6518-1133. Our website address is <http://www.atai.net.cn>. The information on our website does not form a part of this annual report. On February 1, 2008, we completed our initial public offering, which involved the sale by us of 4,874,012 of our ADSs, representing 9,748,024 of our common shares. Our agent for service of process in the United States is CT Corporation System, located at 111 Eight Avenue, New York, New York 10011. The SEC maintains an Internet site at <http://www.sec.gov> that contains electronic reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC.

Our Consolidated Variable Interest Entity

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

The ATA Intelligent Learning Agreements allow us to:

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

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

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

However, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including the laws and regulations governing the enforcement and performance of our contractual arrangements in the event of imposition of statutory liens, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that the PRC regulatory authorities will not ultimately take a contrary view. If the PRC government finds that the agreements that establish the structure of our operations in China do not comply with PRC government restrictions on foreign investment in our industry, we could be subject to severe penalties. See “Risk Factors – Risks Related to Our Corporate Structure – If the PRC government deems our contractual arrangements with our variable interest entity do not comply with PRC regulatory restrictions on foreign investment in certain industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

Contractual Arrangements with ATA Intelligent Learning

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

Agreements that Provide Us with Effective Control over ATA Intelligent Learning

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

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

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

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

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

Call Option and Cooperation Agreement. On March 15, 2018, ATA Education, ATA Intelligent Learning and the shareholders of ATA Intelligent Learning entered into a call option and cooperation agreement. Pursuant to the call option and cooperation agreement, when permitted by applicable law, ATA Education (or any eligible party designated by ATA Education) shall have the right to acquire, at any time, all of ATA Intelligent Learning's assets or its share equity owned by the shareholders of ATA Intelligent Learning, at a price equal to the sum of the principal amounts of the loans from ATA Education to the shareholders of ATA Intelligent Learning. If ATA Education elects to purchase a portion of ATA Intelligent Learning's share equity or assets, the exercise price for such purpose shall be adjusted accordingly based on the percentage of such share equity or assets to be purchased relative to the total share equity or assets. Without the prior written consent of ATA Education, ATA Intelligent Learning may not sell or otherwise dispose of its assets or interests in its business, create or allow any encumbrance on its assets or interests in its business, enter into any material contracts (except those contracts entered into in the ordinary course of business), or distribute dividends to the shareholders. The call option and cooperation agreement was effective upon the execution date and remain effective thereafter.

Loan Agreements. On March 15, 2018, ATA Education and each of the shareholders of ATA Intelligent Learning entered into loan agreements. Pursuant to the loan agreements, ATA Education made loans in an aggregate principal amount of RMB 10.0 million to the shareholders of ATA Intelligent Learning solely for the capitalization of ATA Intelligent Learning. The shareholders of ATA Intelligent Learning can only repay the loans by transferring all their equity interest in ATA Intelligent Learning to ATA Education or its designated persons. In the event that the shareholders of ATA Intelligent Learning transfer their equity interests to ATA Education or its designee at a price equivalent to or less than the amount of the principal amount of the loans, the loans will be interest free. If the price is higher than the amount of the principal amount of the loan, the excess amount will be paid to ATA Education as loan interest. The maturity date of the loans is on the tenth anniversary of the execution date of the relevant loan agreement. The term of the loans can be extended with the written consent of ATA Education and ATA Intelligent Learning. On March 19, 2019 and April 20, 2019, ATA Education, ATA Intelligent Learning and each of the shareholders of ATA Intelligent Learning entered into two supplementary agreements to the ATA Intelligent Learning Agreements, pursuant to which the aggregate principal amount of loans made by ATA Education to the shareholders of ATA Intelligent Learning for the capitalization of ATA Intelligent Learning increased from RMB 10.0 million to RMB 50.0 million with all other terms and conditions under the ATA Intelligent Learning Agreements remain unchanged.

B. Business Overview

Overview

We are an international educational services provider focusing on providing quality international educational experiences related to the cultivation and improvement of students' creativity. Currently, our principal product and service are portfolio training services which we provide to students in China who are interested in studying art overseas. We believe we are one of the leading players in the portfolio training market in many regards, including geographic coverage, product breadth and student enrollment, among others. To achieve our one-stop service strategy, we also provide educational travel services, overseas study counseling services, in-school art classes through cooperation with high schools, foreign language training services, junior art education and other services to our students. We have successfully helped nearly ten thousand students in China gain entry into art universities and colleges in the U.S., UK, Europe, Japan and other countries as of December 31, 2019, among which quite a few gained entry into top art universities and college in such countries. While working on developing new international education related products and services, we are also exploring acquisition opportunities in the international education sector to broaden our product spectrum.

During the period from the Acquisition Date to December 31, 2019 (the "Partial Year 2019"), we had approximately 1,880 students enrolled, of which 60.4% were enrolled in our portfolio training programs and the remainder were enrolled in our other programs. We deliver our educational services to students primarily through our extensive network of training centers in China.

Our total net revenues for the fiscal year ended December 31, 2019 was RMB 97.8 million (\$14.0 million). Net revenues from our portfolio training services, educational travel services, overseas study counseling services, other educational services, K-12 education assessment and other services accounted for 65.3%, 10.7%, 8.3%, 9.2% and 6.5% of our total net revenues in the fiscal year ended December 31, 2019. Our total net loss for the fiscal year ended December 31, 2019 was RMB 129.2 million (\$18.6 million). Net revenues and net loss for the fiscal year ended December 31, 2019 only include the results of our portfolio training services, educational travel services, overseas study counseling services, and other educational services conducted by Huanquiyimeng for the Partial Year 2019. Net revenues and net loss of Huanquiyimeng included in the annual report for the Partial Year 2019 were RMB 91.4 million (\$13.1 million) and RMB 24.3 million (\$3.5 million) respectively. For the fiscal year ended December 31, 2018, our total net revenues were RMB 1.3 million, mainly derived from our K-12 education assessment and other services. For the nine months ended December 31, 2017, our total net revenues were RMB 5.2 million, mainly derived from rental income and K-12 education assessment service revenues.

Our Programs, Services and Products

We provide a wide variety of creative arts related international educational services to our students. Our services include portfolio training services, educational travel services, overseas study counseling services, other educational services, K-12 education assessment and other services. Catering to the different needs of our students, these services can be offered in a bundle setting or separately. We update and expand our service offerings frequently in response to the evolving market needs.

Portfolio Training Services

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

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

Our Portfolio Training Courses

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

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

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

Professional Courses. In professional courses, students will learn how to create a portfolio step by step under the guidance and supervision of our teachers. The whole process primarily includes theme development, research, art work creation and refinement, art work selection, and portfolio presentation and composition. Students will first develop a theme for their portfolio, and then drill down to develop the theme into more detailed and symbolic ideas. Students will conduct research to explore and refine the ideas generated previously. After research, they will make preliminary pieces reflecting the content and structure of their ideas and refine such art work in subsequent rounds. Students will make a few pieces of art work for the purpose of selecting the best ones to be included in their portfolios. When the selected pieces are in place, students will put them together in a professional, coherent and aesthetically pleasing layout. Our teachers will give advice and directions to students along the whole process to ensure that their portfolios are creative, well-developed and meet the admission requirements and expectations of the universities or colleges that the students apply to.

The majority of our courses are conducted offline and delivered through our nation-wide training center network. We also conduct online courses for certain portfolio training programs through a third party platform; as an example, we provide online courses for students applying for art schools in Japan. After the outbreak of COVID-19, to avoid interruption of our services, we have converted some of the offline courses of our portfolio training services to online courses from February 2020. We also plan to develop more online courses going forward in response to growing market demands, through which students can attend classes of professional or highly skilled teachers in other cities. Additionally, we intend to convert some of our fundamental courses, which are traditionally delivered one-on-one or small-sized classes of 3 to 5 students. All of our creativity and professional courses are currently delivered through one-on-one model. We plan to develop more small-sized classes going forward to improve our teaching efficiency and profit margin, especially for fundamental courses where most of the course content can be standardized for students.

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

Our Portfolio Training Specializations

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

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

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

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

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

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

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

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

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

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

Educational Travel Services

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

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

The types of educational travel services provided by us mainly include academic educational travel, workshop internships and themed educational travel. Typically, the duration of the travel is from one to four weeks. The main destinations of our educational travel services are the United States, the United Kingdom, Japan, France and Italy. We are also exploring some cities in China with respect to our domestic educational travel programs.

Academic Educational Travel. We provide students with summer camp and winter camp programs where students will visit reputable art schools and take specialized art courses. We also invite professors from universities to deliver lectures to students and invite admissions officers who are in charge of recruiting candidates to meet and communicate with students. Our academic educational travel services target high school or undergraduate students who intend to study abroad.

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

Themed Educational Travel. We organize and guide students to local or overseas museums, art galleries, cultural relics, etc. in themed educational travel programs, during which we teach the relevant information to cultivate students' interest in art. Themed educational travel is suitable for students at all ages, and especially attractive to lower age groups where the primary goals are to broaden their horizons, cultivate their interest in art and to help them acquire art related knowledge and appreciations.

Overseas Study Counseling Services

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

- *Background Development.* We set a customized timetable for applicants, which mainly includes schedules for portfolio preparation, language tests, internships and paperwork preparation.
- *University and Program Selection.* We offer guidance on university and program selection based on the individual academic background, personality, career goal and other factors of each student.
- *Paper Writing.* We help students develop the professional content and logical layout of their personal statements, resume, recommendation letters and other paperwork for art school applications.

- *Interview Simulation.* We provide sample interview questions that have previously been used and help students practice the interview process.
- *Application Preparation.* We present a checklist of documents required in school applications for students to prepare, such as a graduation certificate and proof of deposits.

Other Educational Services

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

Junior Art Education: Our junior art education services aim to provide art-related tutoring courses for junior students from age 3 to 12, which are mainly designed to supplement students' regular school curriculum and help students cultivate and enhance their interest in art. Our primary subject for junior art education is painting.

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

K-12 Education Assessment and Other Services

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

- *K-12 Education Assessment Services.* We develop our own tests for K-12 students and collect and analyze their test results to evaluate the learning competencies of students and teaching qualities of schools, so as to provide advice for schools and local education bureaus to enhance education developments.
- *Nanjing University Project Shuang Chuang.* Nanjing University Project Shuang Chuang is a pilot project aiming to build a learning-oriented assessment platform associated with database models for capturing, analyzing and improving the innovative and entrepreneurial qualities of students among colleges and higher education institutions.
- *Research Project with the Research Institute of Future Education and Assessment of Tsinghua University* Our research project with the Research Institute of Future Education and Assessment of Tsinghua University focuses on the assessments of Chinese skills and competencies of non-native Chinese learners.

Our Teachers

We are equipped with a team of professional art teachers who are specialists in different areas and who work either full-time or part-time for the delivery of our programs. As of December 31, 2019, we have a total of 1,407 teachers, including 201 full-time employees and 1,206 part-time teachers who are academics from universities and colleges or designers with private studios within their respective specializations.

Most of our teachers have graduated from reputable domestic or overseas universities with master degrees in China, the United Kingdom, the United States, Japan or other countries. Around 20% of our full-time teachers have over 5 years of related experience in the art industry, while around 55% of our full-time teachers have over 3 years of related experience. Our part-time teachers are generally experienced and have been working in the art industry for years. Most of our part-time teachers are experts in the relevant industries or teachers from prestige art schools and institutions who are familiar with the latest development in the relevant industries.

We have adopted a quantitative approach to comprehensively assess and evaluate our teacher candidates on a wide set of criteria, including among others, educational background, professional abilities, teaching skills, previous teaching experience and communication skills. Our teachers deliver courses to students to equip them with fundamental knowledge and skills, aesthetic appreciation for art, creative thinking capabilities, critical thinking abilities, professional skills, craftsmanship, software techniques and studio practice skills. We have also developed a systematic orientation training program and on-the-job training sessions, which reinforce the capabilities of our instructors to deliver our services effectively and assist students with learning efficiently. Our teachers' retention, compensation and promotion are largely based on their performance. We offer our teachers with performance-based compensation packages and provide them with career advancement prospects within the Company.

Research and Curriculum Development

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

Our research and curriculum development process mainly includes the following:

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

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

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

Our Customers

Our customers primarily consist of high school and undergraduate students who intend to pursue overseas undergraduate or graduate art studies. For our portfolio training services, educational travel services and overseas study counseling services, our customers are mainly high school and undergraduate students. We also provide services to certain other students. For foreign language training services, we mainly target high school and undergraduate students and other non-student professionals who need to pass relevant language tests in connection with overseas school application. For in-school classes, we mainly target junior-level high school students, who may be interested in pursuing creative art studies in the future. For junior art education, our primary customers are junior students from age 3 to 12.

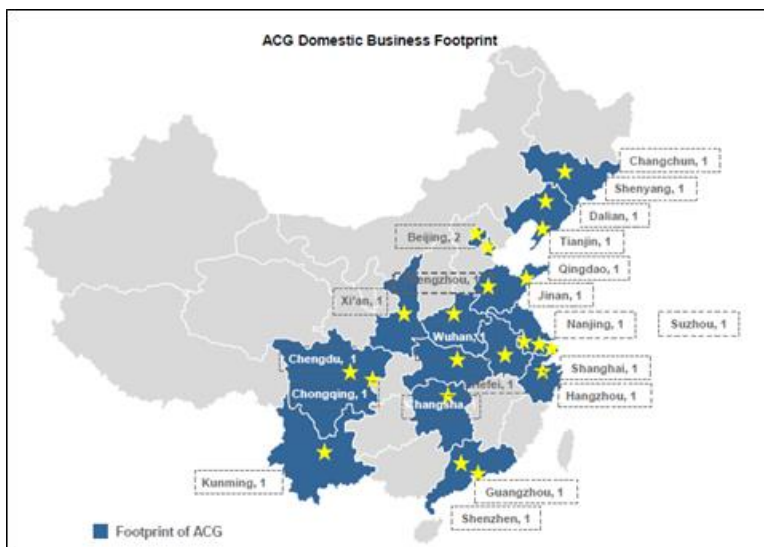
High School Student Customers. We provide portfolio training services, educational travel services, overseas study counseling services and other educational services to high school students who aim to pursue overseas undergraduate studies in art. High school students enrolled in our services are mainly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

Undergraduate Student Customers. We primarily provide portfolio training services, educational travel services, overseas study counseling services and other educational services to undergraduate students who aim to pursue overseas graduate studies in art. Approximately 95% of undergraduate students enrolled in our services studied art-related majors in domestic universities or professional art colleges and aim to pursue overseas graduate studies in the arts, while the remaining approximately 5% have studied in other majors but desire to transfer to art programs in overseas graduate schools. Most undergraduate students have gained a certain amount of art-related expertise during their undergraduate art studies. As a result, whilst they still rely on our services, resources and guidance to improve their applications for overseas art programs, they tend to care more about the cost-effectiveness of our services and products and usually only purchase the types of our services they need instead of purchasing for the full package.

Other customers. For the fiscal year ended December 31, 2019, we also had enrollments from other students besides high school and undergraduate students. These students cover a wide range in age. For example, we provide educational travel services to secondary school students who are not motivated by the desire to submit art school applications but to cultivate their interests in art and acquire art-related knowledge and appreciation. We also provide other creative art related services to children aged 3 to 12 years old, such as printmaking teaching services.

Our Training Center Network

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



**Domestic business footprint of ACG as of April 22, 2020*

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

Northern China: Beijing, Tianjin, Jinan, Qingdao, Dalian, Changchun and Shenyang, accounting for 42% of our total student enrollment. Beijing has two training centers representing 22% of our total student enrollment in the Partial Year 2019.

Southern China: Shenzhen, Wuhan, Changsha and Guangzhou, accounting for 18% of our total student enrollment in the Partial Year 2019.

Eastern China: Shanghai, Hangzhou, Nanjing, Hefei and Suzhou, accounting for 28% of our total student enrollment in the Partial Year 2019. Shanghai had two training centers, one of which was closed in first quarter of 2020, representing 12% of our total student enrollments in the Partial Year 2019.

Western China: Xi'an, Zhengzhou, Kunming, Chongqing and Chengdu, accounting for 12% of our total student enrollment in the Partial Year 2019.

Marketing, Sales and Business Development

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

We employ a variety of marketing and student recruiting methods to attract prospective students:

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

Internet and Mobile Advertisement. We advertise on the mainstream online search engines to promote our services to potential students who actively search keywords relevant to portfolio training, art study, etc. We also advertise through social media platforms to potential students, including without limitation, WeChat, Weibo and TikTok. Internet and mobile advertising is also an important marketing method for us to acquire new students.

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

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

Competition

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

We believe we are one of the leading players in the portfolio training market in terms of, among others, geographic coverage, product breadth, and student enrollment. In educational travel services and other creative arts related international education services, we are also a player with a competitive edge. Our main competitors are other domestic and international art training institutions and organizations, which focus on some of our targeted markets. We also face potential competition from small to middle sized organized players and individual studios.

We compete primarily on the basis of branding and student acquisition, training quality, faculty, quality training center environment, product breadth and pricing, among which, branding and student acquisition is generally regarded as the most important factor, while pricing is the least. We believe that our competitive advantages include our “ACG” brand, high admission rate to art institutions, qualified faculty, competitive training quality and comprehensive product mix. However, our competitors may establish brands that have wider recognition than us, develop marketing and sales methods that are more effective than ours, introduce new products and services that have better performance and hence gain broader acceptance, hire and retain more qualified teachers, offer more satisfactory training center environment or lower prices to students, which may cause us to lose our market share.

Seasonality

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

Intellectual Property

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

As of December 31, 2019, we have registered 27 trademarks for our products and services with the Trademark Office of the SAMR in China.

As of December 31, 2019, we have registered 68 software copyrights relevant to our product and service offerings with the National Copyright Administration of the People’s Republic of China, or NCA.

As of December 31, 2019, we have also registered 40 domain names relating to our websites, including www.atai.net.cn, www.acgedu.cn and www.acgorg.com, the primary URLs for our three main websites, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

Regulation

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

Education Law of the PRC

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

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

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

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

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

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

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

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

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

- sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law and other relevant laws and regulations;
- sponsors of non-profit private schools are not entitled to the distribution of profits or proceed from the non-profit schools and all operation surplus of non-profit schools shall be used for the operation of the schools;
- for-profit private schools are entitled to set their own tuition and other miscellaneous fees without the need to seek prior approvals from or report to the relevant government authorities. The collection of fees by non-profit private schools, on the other hand, shall be regulated by the provincial, autonomous regional or municipal governments;
- private schools (for-profit and non-profit) may enjoy preferential tax treatments. Non-profit private schools will be entitled to the same tax benefits as public schools. Taxation policies for for-profit private schools after the Amendment taking effect are still unclear as more specific provisions are yet to be introduced;
- where there is construction or expansion of a non-profit private school, the school may acquire the required land use rights in the form of allocation by the government as a preferential treatment. Where there is construction or expansion of a for-profit private school, the school may acquire the required land use rights by purchasing them from the government;
- the remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of non-profit schools. The remaining assets of for-profit private schools shall be distributed to the sponsors in accordance with the PRC Company Law; and
- people's governments at or above the county level may support private schools by subscribing to their services, provision of student loans and scholarships, and leases or transfers of unused state assets. The governments may further take such measures as government subsidies, bonus funds and incentives for donation in support of non-profit private schools.

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

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

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

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

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

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

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

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

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

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

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

Regulations on Tourism

The Tourism Law of the PRC, which was promulgated by the Standing Committee of the NPC and most recently amended on October 26, 2018, provides that, among other things, to engage in the businesses of outbound tourism, a travel agency shall obtain the corresponding business permit, and the specific conditions shall be provided for by the State Council and that when organizing an outbound touring group, or organizing or receiving an inbound touring group, a travel agency shall, in accordance with the relevant provisions, arrange for a tour leader or tour guide to accompany the touring group in the whole tour. Regulations on Travel Agencies promulgated by the State Council, revised on March 1, 2017, and the implementation rules of Regulations on Travel Agencies, provide that, among other things, travel agent shall mean any entity that engages in the business of attracting, organizing, and receiving tourists, providing tourism services for tourists and operating domestic, outbound or border tourism; the aforementioned business shall include but not limit to arranging for transport services, arranging for accommodation services, providing services for tour guides or team leaders, providing services of tourism consultation and tourism activities design. According to the Regulations on Travel Agencies and its implementation rules, any tourism agent engages in domestic and outbound tourism shall apply for corresponding permits to engage in such tourism activities from the administrative department of tourism under the State Council, the governments of provinces, autonomous regions, or municipalities. In the event that any person is engaged in tourism business without holding the permits required, the competent administrative department or branch of SAMR may order such person to obtain the permits required, confiscate the illegal income from such business and impose fines to such person. With respect to our educational travel services, we cooperate with third party travel agencies which have travel agency permits for our educational travel activities, such as accommodation and tour guiding, while we are also engaged in certain travel related activities ourselves, such as attracting and organizing students, and arranging for some transport services. Under the current law rules, it is not clear whether we are required to obtain a travel agency permit.

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

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

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

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

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

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

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

Regulations Relating to Internet Content and Information Security

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

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

In addition, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the People's Republic of China, or the Cyber Security Law, which took effect on June 1, 2017, to protect cyberspace security and order. Pursuant to the Cyber Security Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public orders and respect social moralities, and must not endanger cyber security, or engage in activities by making use of the network that endanger the national security, honor and interests, or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. The Cyber Security Law sets forth various security protection obligations for network operators, which are defined as "owners and administrators of networks and network service providers," including, among others, complying with a series of requirements of tiered cyber protection systems; verifying users' real identities; localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within China; and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes.

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

Regulation of Domain Names and Website Names

PRC laws require owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MIIT and obtain a registration certificate from such registration agencies. A registered domain name owner has an exclusive usage right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of December 31, 2019, we have registered 39 domain names relating to our websites, including www.atai.net.cn, www.acgedu.cn and www.acgorg.com the primary URL for our website, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

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

Regulation of Privacy Protection

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

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

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

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

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

Regulation of Foreign Investment

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

On 30 June 2019, MOFCOM and National Development and Reform Commission, or NDRC jointly promulgated the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 Edition) (the "2019 Negative List"), which came into effect on 30 July 2019. The 2019 Negative List replaced the negative list provided under the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2018 Edition) (the "2018 Negative List"). Pursuant to the 2019 Negative List, the number of items subject to the special administrative measures has been reduced from 48 to 40. The 2019 Negative List remains unchanged with respect to the education industry.

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

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

Regulation of Foreign Exchange

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

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

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

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

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

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

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

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

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

Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions

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

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

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

Regulation of Overseas Listings

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

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

SAFE Regulations on Employee Share Options

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

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

Employment Laws

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

C. Organizational Structure

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

D. Property, Plant and Equipment

Our principal executive offices are located with approximately 845 square meters office space at 1/F East Gate, Building No. 2, Jian Wai Soho, and 253 square meters office space at 22/F, Building No. 15, Jian Wai Soho, No. 39 Dong San Huan Zhong Road, Chao Yang District, Beijing 100022, China respectively. We operate an aggregate of approximately 18,555 square meters of space throughout our training center network in various cities in China, including Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Chongqing, Dalian, Hangzhou, Nanjing, Suzhou, Hefei, Zhengzhou, Xi'an, Tianjin, Kunming, Wuhan, Qingdao, Jinan, Changsha, Shenyang and Changchun. We also own 2,124 square meters office space, with 1,062 square meters for each of two floors at Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, China ("Gongyuan Real Estate Property"). As of the date of this annual report, the office space on the 8th floor of the Gongyuan Real Estate Property has been leased out and the office space on the 16th floor of the Gongyuan Real Estate Property has not been occupied. We believe our existing facilities are adequate for our current requirements and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

Overview

Our Business

Historically, we generated revenues primarily from our computer-based testing services, online education services and other related services. On August 16, 2018, we completed the sale of the ATA Online Business, which historically operated our computer based testing services, online education services and other related services. As a result, the operating results of the ATA Online Business have been retrospectively reclassified as discontinued operations for the nine months ended December 31, 2016 and 2017, the twelve months ended December 31, 2017 and the fiscal year ended December 31, 2018. After the completion of the Huanqiyimeng Acquisition, we generated revenues primarily from our portfolio training services, educational travel services, overseas study counseling services, other educational services, K-12 education assessment and other services. In addition, as a result of the adoption of new revenue guidance Accounting Standards Codification Topic 606, effective January 1, 2018 ("ASC 606"), rental income was reclassified into other operating income, net, and related costs were also reclassified from cost of revenues to other operating income, net.

Our net revenues were RMB 6.6 million, RMB 5.2 million, RMB 7.4 million, RMB 1.3 million and RMB 97.8 million (\$14.0 million) in the nine months ended December 31, 2016 and 2017, the twelve months ended December 31, 2017 and the fiscal years ended December 31, 2018 and 2019, respectively. We had net income of RMB 43.9 million, net income of RMB 27.8 million, net loss of RMB 26.1 million, net income of RMB 850.6 million and net loss of RMB 129.2 million (\$18.6 million) in the nine months ended December 31, 2016 and 2017, the twelve months ended December 31, 2017 and the fiscal years ended December 31, 2018 and 2019, respectively.

Factors Affecting Our Results of Operations

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

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

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

- the impacts of our sale of the ATA Online Business;
- the impacts of the Huanquiyimeng Acquisition;
- our share-based compensation;
- the impacts of PRC tax policies, including certain preferential tax rates;
- the impact of the termination of Beijing Biztour acquisition and the receipt (or failure to receive) of the related receivables;
- the relative proportion of our net revenues derived from higher- and lower-gross margin service offerings;
- the impacts of strategic investments and acquisitions;
- our ability to maintain our brand;
- competition from both established brands and new entrants, and our ability to maintain our market share in the increasing competition;
- our ability to maintain similar margin, sourcing students, etc.; and
- the impact of COVID-19 or other similar pandemic or natural disasters. Please see “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People’s Republic of China— The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results” in this annual report for more details.

Net Revenues

We derived revenues primarily from our portfolio training services, educational travel services, overseas study counseling services, other educational services, K-12 education assessment and other services in fiscal year ended December 31, 2019. Our net revenues are presented net of PRC business taxes and value added tax. The following table sets forth our net revenues from our continuing operations for the periods presented.

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

	For the nine months ended		For the	For the fiscal year ended		
	December 31,		twelve	December 31,		
	2016	2017	months	2018	2019	
	RMB	RMB	ended	RMB	RMB	US\$
	(Unaudited)	(Unaudited)	December 31	(Unaudited)		
	(in thousands)					
Net Revenues						
Portfolio training services	—	—	—	—	63,829	9,168
Educational travel services	—	—	—	—	10,456	1,502
Overseas study counseling services	—	—	—	—	8,092	1,162
Other educational services	—	—	—	—	9,045	1,300
K-12 education assessment and other services	6,628	5,186	7,389	1,339	6,348	912
Total net revenues	6,628	5,186	7,389	1,339	97,770	14,044

Portfolio Training Services.

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

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

Educational Travel Services.

We derive educational travel services revenue primarily from educational travel services fee charged from our students, mainly consisting of our portfolio training students and other students interested in educational travels. Educational travel services currently are primarily delivered overseas, which include academic educational travel, internship workshop and themed educational travel. Most educational travel services are conducted in summer with a lesser amount in winter.

The most significant factors that affect our revenues from educational travel services include the number of individual students who enroll in our educational travel services and the unit price level that we charge our students.

Overseas Study Counseling Services.

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

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

Other Educational Services.

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

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

K-12 Education Assessment and Other Services

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

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

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

Cost of Revenues

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

	For the nine months ended December 31,				For the twelve months ended December 31,		For the fiscal year ended December 31,				
	2016		2017		2017		2018		2019		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US\$	%
	(Unaudited)				(Unaudited)		(Unaudited)				
	(in thousands, except for percentages)										
Net Revenues	6,628	100.0%	5,186	100.0%	7,389	100.0%	1,339	100.0%	97,770	14,044	100.0%
Cost of Revenues	3,236	48.8%	3,786	73.0%	4,957	67.1%	4,251	317.5%	61,914	8,894	63.3%
Gross Profit (Loss)	3,392	51.2%	1,400	27.0%	2,432	32.9%	(2,912)	(217.5)%	35,856	5,150	36.7%

Cost of revenues primarily consist of (1) teaching fees, payroll and compensation to teaching support staff and administrative staff, performance-linked bonuses paid to teachers and rental payments for training centers as well as costs of course materials and teaching aids for portfolio training services, (2) payroll compensation, outsourcing service costs, lodging and transportation expenses, overseas expenses, and other related costs which are directly attributable to the provision of educational travel services and overseas study counseling services, and (3) teaching fees, payroll compensation, content development costs, and other related costs, which are directly attributable to the rendering of other educational services and K12 education assessment and other services.

Factors Affecting Gross Margin

Our gross margin is primarily affected by unit price and the number of credit hours delivered for our portfolio training and other educational services, pricing and volume of our other services rendered, payroll and compensation to our teachers, salary and compensation to other operational staffs, the rental costs of our training centers and offices, as well as costs of teaching materials and teaching supporting fees.

Operating Expenses

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

General and Administrative Expenses

Our general and administrative expenses consist primarily of salaries and benefits, traveling expenses, administration and share-based compensation expenses for our administrative, management and finance personnel, as well as other expenses including professional fees, office expenses and rental costs.

Sales and Marketing Expenses

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

Research and Development Expenses

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

Share of Losses of Equity Method Investments

We apply the equity method to account for our equity interests in investees over which we have significant influence but do not own majority equity interests or otherwise control. Under the equity method of accounting, our share of the investees' results of operations is reported as share of income (losses) of equity method investments in the consolidated statements of comprehensive income (loss).

Impairment Loss of Long-term Investments

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

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

Other Operating Income, Net

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

Taxation

Cayman Islands and British Virgin Islands

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

Hong Kong

Xing Wei did not derive any income that is subject to Hong Kong profits tax for the nine months ended December 31, 2017 or the fiscal years ended December 31, 2018 and 2019. Accordingly, no provision for Hong Kong profits tax was required. PRC income tax arising from the disposal of an investment in a subsidiary, Zhongxiao Zhixing, which was previously operating in China during the taxable year ended December 31, 2018 was filed and fully paid to the relevant PRC tax authorities in 2018. The payment of dividends by Hong Kong companies is not subject to any Hong Kong withholding tax.

People's Republic of China

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

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

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

In addition, since January 1, 2008, the EIT Law has revoked the exemption of withholding tax on dividends paid by a PRC enterprise to its foreign investors under the old tax law and its Implementation Rules provide that a withholding tax of 10% (or other applicable withholding tax rates based on tax treaties between the PRC and other jurisdictions) will generally be applicable to dividends payable to foreign investors. To the extent we and our overseas entities are not considered as PRC resident enterprises, the dividends that our PRC subsidiaries pay to us will be subject to this withholding tax. See Item 3.D. “Key Information—Risk Factors—Risks Relating to Regulations of Our Business—Under the EIT Law, we may be classified as a ‘resident enterprise’ of China. Such classification will likely result in unfavorable tax consequences to us and U.S. holders of our ADSs or common shares.” Undistributed earnings generated before January 1, 2008 will be exempt from withholding tax when such earnings are distributed to foreign investors. As of December 31, 2017, we had accrued withholding tax of RMB 22,797,747 on undistributed earnings of RMB 227,977,473 generated by our PRC consolidated entities since January 1, 2008. As a result of the sale of the ATA Online Business, the withholding tax of RMB 22.8 million accrued from the disposed entities in China has been recorded under discontinued operations. As of December 31, 2018 and 2019, the Company has not provided for income taxes on earnings of RMB 71,323,502 and RMB 6,233,021 respectively, generated by its PRC consolidated entities, as the Company plans to reinvest these earnings indefinitely in the PRC. We announced declaration of a cash dividend of US\$0.205 per common share, or US\$0.41 per ADS on June 1, 2017, and a special cash dividend of US\$3.00 per common share, or US\$6.00 per ADS on August 8, 2018. On December 21, 2017, the China Ministry of Finance (“MOF”), SAT, National Development and Reform Commission and Ministry of Commerce jointly released Cai Shui [2017] No. 88 (the “No. 88 Notice”). The No. 88 Notice formally introduces a tax measure which allows foreign investors to enjoy withholding tax deferral treatment (“WHT deferral treatment”), on the direct re-investment of profits distributed from Chinese tax resident enterprises into China’s “encouraged projects.” If the foreign investor qualifies for the WHT deferral treatment, the Chinese subsidiary of the related foreign investor should submit the required documents to its tax authorities on behalf of the foreign investor. Upon completion of the filing, the Chinese subsidiary could suspend withholding the profits distributed to the foreign investor. According to the No. 88 Notice, the WHT deferral treatment is applicable retroactively to January 1, 2017, and withholding tax payments already made on eligible re-investments are eligible for refund within three years of the withholding tax payment. On October 29, 2018, the SAT released [2018] No. 53 announcement, which expands the scope of foreign-invested Chinese subsidiaries that are eligible to apply for WHT deferral treatment to potentially all companies and specified the detailed application process and measures.

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

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

ATA Education and Muhua Shangce, as HNTes in the fiscal year ended December 31, 2019, are eligible to apply for the above preferential tax rules and carry forward tax losses up to ten years. In view of the accumulated losses of certain of our PRC subsidiaries, as of December 31, 2019, we provided the full valuation allowance for their deferred income tax assets after consideration of the future reversal of existing taxable temporary differences.

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

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

Critical Accounting Policies

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

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

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

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

Revenue Recognition

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

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

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

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

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

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

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

- Portfolio training services. Revenue is recognized over a period of time based on the number of training hours expended and total hours of training under the contract with the students. Under project-based programs, the number of hours of trainings required to complete a project is not pre-determined and varies depending on the background and requirements of individual students. We reassess the total hours of training pursuant to each contract of project-based program with individual student on a quarterly basis. Any adjustments arising from the changes of estimated training hours are applied prospectively.
- Educational travel services. Revenue is recognized over service period on the basis of costs incurred to-date to the total estimated costs.
- Overseas study counseling services. Revenue is recognized over the service period on the basis of costs incurred to-date to the total estimated costs.
- Other educational services. Revenue is recognized when control of promised services is transferred to the customers in an amount of consideration to which we expect to be entitled to in exchange for those services.
- Revenue from K12 education assessment services and content development is recognized when we deliver the reports or developed content to customers, which is when the control over the report or the content has been transferred to customers.

Business Combination

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

Income Taxes

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

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

For the nine months ended December 31, 2017 and each of the fiscal years ended December 31, 2018 and 2019, we had no unrecognized tax benefits relating to uncertain tax positions. Also, we do not expect that the amount of unrecognized tax benefits will significantly increase within the next twelve months.

As of December 31, 2019, the valuation allowance of RMB 44.7 million (\$6.4 million) was related to the deferred income tax assets of our PRC entities which were in loss position. As of December 31, 2019, we believe it is more likely than not that we will realize the deferred income tax assets, net of the valuation allowance.

Share-based payment

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

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

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

Long-term investments

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

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

Available-for-sale investment. Available-for-sale investment is an investment in convertible notes measured at fair value with unrealized gains and losses recorded in accumulated other comprehensive income.

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

Results of Operations

The following table and period to period comparison and discussion sets forth a summary, for the periods presented, of our consolidated results of operations and with each item expressed as a percentage of our total net revenues. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period, and since the results for the nine months ended December 31, 2016 and 2017, the twelve months ended December 31, 2017, and the fiscal year ended December 31, 2018 include the ATA Online Business as discontinued operations and do not include any of the results of our businesses conducted by Huanqiuyimeng, which was acquired by us in 2019, and the results for the year ended December 31, 2019 only include the results of our businesses conducted by Huanqiuyimeng from the Acquisition Date to December 31, 2019, the following results and discussion may not be representative of our future operations.

Discontinued Operations

According to the Accounting Standards Codification Topic 205, the effect of discontinued operations of computer-based testing services, online education services and other related services for the nine months ended December 31, 2016 and 2017, the twelve months ended December 31, 2017 and the fiscal years ended December 31, 2018 and 2019 has been accounted for in the consolidated statement of operations for all the periods presented. The gain from the disposal of discontinued operations, net of income taxes, recorded for the year ended December 31, 2019, was to account for the reimbursement of legal and consulting expenses received from the buyer in relation to the sale of the ATA Online Business. Results from operations of discontinued operations, net of income tax, were income of RMB 89.0 million, income of RMB 100.6 million, income of RMB 61.4 million, loss of RMB 19.0 million and income of RMB nil in the nine months ended December 31, 2016 and 2017, the twelve months ended December 31, 2017 and the fiscal years ended December 31, 2018 and 2019, respectively.

	For the nine months ended December 31,				For the twelve months ended December 31		For the fiscal year ended December 31				
	2016		2017		2017		2018		2019		
	RMB	% of net revenues	RMB	% of net revenues	RMB	% of net revenues	RMB	% of net revenues	RMB	US\$	% of net revenues
	(Unaudited)										
	(In thousands, except for percentages)										
Net revenues	6,628	100.0 %	5,186	100.0 %	7,389	100.0 %	1,339	100.0 %	97,770	14,044	100.0 %
Cost of revenues	3,236	48.8 %	3,786	73.0 %	4,957	67.1 %	4,251	317.5 %	61,914	8,894	63.3 %
Gross profit (loss)	3,392	51.2 %	1,400	27.0 %	2,432	32.9 %	(2,912)	(217.5) %	35,856	5,150	36.7 %
Operating expenses:											
Research and development	15,627	235.8 %	15,416	297.3 %	19,713	266.8 %	19,594	1,463.3 %	11,817	1,697	12.1 %
Sales and marketing	4,143	62.5 %	4,539	87.5 %	5,633	76.2 %	5,570	416.0 %	34,112	4,900	34.9 %
General and administrative	27,442	414.0 %	40,133	773.9 %	48,758	659.9 %	43,508	3,249.3 %	81,924	11,768	83.8 %
Impairment loss of intangible assets and other non-current assets	—	—	—	—	—	—	—	—	8,932	1,283	9.1 %
Provision for loan receivable and other receivables	—	—	—	—	—	—	—	—	17,431	2,504	17.8 %
Total operating expenses	47,212	712.3 %	60,088	1,158.7 %	74,104	1,002.9 %	68,672	5,128.6 %	154,216	22,152	157.7 %
Other operating income, net	—	—	—	—	—	—	3,793	283.3 %	588	85	0.6 %
Loss from continuing operations	(43,820)	(661.1) %	(58,688)	(1,131.7) %	(71,672)	(970.0) %	(67,791)	(5,062.8) %	(117,772)	(16,917)	(120.5) %
Share of losses of equity method investments	(2,274)	(34.3) %	(1,395)	(26.9) %	(1,959)	(26.5) %	—	—	(8)	(1)	(0.0) %
Impairment loss of long-term investments	—	—	(15,217)	(293.4) %	(15,217)	(205.9) %	(6,381)	(476.5) %	(26,815)	(3,852)	(27.4) %
Change in fair value of long-term investment	—	—	—	—	—	—	2,750	205.4 %	—	—	—
Interest income, net of interest expenses	1,136	17.1 %	609	11.7 %	970	13.1 %	2,409	179.9 %	3,282	472	3.4 %
Foreign currency exchange gains (losses), net	(78)	(1.2) %	(222)	(4.3) %	(222)	(3.0) %	960	71.7 %	51	7	0.1 %
Loss from continuing operations before income taxes	(45,036)	(679.5) %	(74,913)	(1,444.5) %	(88,100)	(1,192.3) %	(68,053)	(5,082.4) %	(141,262)	(20,291)	(144.5) %
Income tax benefit	—	—	(2,109)	(40.7) %	(591)	(8.0) %	—	—	(7,150)	(1,027)	(7.3) %
Loss from continuing operations, net of income taxes	(45,036)	(679.5) %	(72,804)	(1,403.9) %	(87,509)	(1,184.3) %	(68,053)	(5,082.4) %	(134,112)	(19,264)	(137.2) %
Income (loss) from operations of discontinued operations, net of income taxes	88,980	1,342.5 %	100,641	1,940.6 %	61,433	831.4 %	(18,951)	(1,415.3) %	—	—	—
Gain from disposal of discontinued operations, net of income taxes	—	—	—	—	—	—	937,606	70,022.9 %	4,894	703	5.0 %
Income from discontinued operations, net of income taxes	88,980	1,342.5 %	100,641	1,940.6 %	61,433	831.4 %	918,655	68,607.5 %	4,894	703	5.0 %
Net income (loss)	43,944	663.0 %	27,837	536.8 %	(26,076)	(352.9) %	850,602	63,525.2 %	(129,218)	(18,561)	(132.2) %
Net income (loss) attributable to ATA Creativity Global	43,978	663.5 %	29,634	571.4 %	(24,060)	(325.6) %	854,926	63,848.1 %	(122,254)	(17,561)	(125.0) %

	For the nine months ended December 31,		For the twelve months ended December 31,	For the fiscal year ended December 31,		
	2016	2017	2017	2018	2019	
	(Unaudited) RMB	RMB	(Unaudited) RMB	RMB	RMB	US\$
Basic and diluted earnings (loss) per common share	0.96	0.48	(0.69)	18.25	(2.52)	(0.36)

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

Net Revenues

Our total net revenues increased by RMB 96.5 million, or 7,201.7%, to RMB 97.8 million (\$14.0 million) in the fiscal year ended December 31, 2019 from RMB 1.3 million in the fiscal year ended December 31, 2018, primarily due to the net revenues of RMB 91.4 million contributed by the recently acquired Huanquiyimeng businesses for the Partial Year 2019, out of which RMB 63.8 million was generated from our primary service line of portfolio training services.

Cost of revenues

Our cost of revenues increased by RMB 57.7 million, or 1,356.5%, to RMB 61.9 million (\$8.9 million) in the fiscal year ended December 31, 2019 from RMB 4.3 million in the fiscal year ended December 31, 2018, primarily due to the cost of revenues of RMB 56.1 million contributed from the recently acquired Huanquiyimeng for the Partial Year 2019, out of which RMB 50.4 million was generated from our portfolio training services, educational travel services and overseas study counseling services.

Gross Profit (Loss)

Our gross profit increased by RMB 38.8 million, or 1,331.3%, to RMB 35.9 million (\$5.2 million) in the fiscal year ended December 31, 2019 from gross loss of RMB 2.9 million in the fiscal year ended December 31, 2018. The increase was primarily contributed by gross profit amounting to RMB 35.3 million (\$5.1 million) of the recently acquired Huanquiyimeng, whose Partial Year 2019 operation results were incorporated into our consolidated financial statements after the Acquisition Date.

Operating Expenses

General and administrative expenses. Our general and administrative expenses increased by RMB 38.4 million, or 88.3%, to RMB 81.9 million (\$11.8 million) in the fiscal year ended December 31, 2019 from RMB 43.5 million in the fiscal year ended December 31, 2018, primarily due to general and administrative expenses of RMB 37.6 million incurred by Huanquiyimeng for the Partial Year 2019, which consists primarily of salaries and share-based compensation expenses paid to our administrative and management personnel, as well as other expenses including professional fees, office expenses and rental costs.

Sales and marketing expenses. Our sales and marketing expenses increased by RMB 28.5 million, or 512.4%, to RMB 34.1 million (\$4.9 million) in the fiscal year ended December 31, 2019 from RMB 5.6 million in the fiscal year ended December 31, 2018, primarily due to sales and marketing expenses of RMB 29.1 million incurred by Huanquiyimeng for the Partial Year 2019, which primarily consists of salaries, compensations, and performance-linked bonuses for our sales and marketing personnel, commission expenses for sales channels, online channel platform expenses as well as other sales expenses including meeting and conference expenses, advertising and promotion expenses, traveling and entertainment expenses, etc.

Research and development expenses. Our research and development expenses decreased by RMB 7.8 million, or 39.7%, to RMB 11.8 million (\$1.7 million) in the fiscal year ended December 31, 2019 from RMB 19.6 million in the fiscal year ended December 31, 2018, primarily due to decrease in labor costs of RMB 6.1 million resulting from the reduction in head counts of the research and development department.

Impairment Loss of Intangible Assets and Other Non-current Assets. We recorded an impairment loss of intangible assets and other non-current assets of RMB 8.9 million (\$1.3 million) for the software platform developed under Project Shuang Chuang in the year ended December 31, 2019, primarily because we anticipate no cash inflow nor alternative use from the platform in the near future. Therefore full impairment was recorded to reduce carrying amount of the relevant assets recognized for this project to zero as of December 31, 2019.

Provision for Loan Receivable and Other Receivables. Our provision for loan receivable and other receivables increased by RMB 17.4 million (\$2.5 million), or 100.0%, in the fiscal year ended December 31, 2019 from RMB nil in the fiscal year ended December 31, 2018. We lent a loan of \$2.0 million and provided advances of approximately RMB 7.5 million to Beijing Biztour, a company we previously anticipated to acquire. The acquisition was terminated by us in March 2019 due to certain closing conditions were not being met by its selling shareholder. As of December 31, 2019, we assessed the collectability of the loan receivable and other receivables due from Beijing Biztour and used the fair value of real estate adjusted by the estimated costs to sell to measure impairment and recorded a provision of RMB 17.4 million for the year ended December 31, 2019.

Impairment Loss of Long-term Investments

Our impairment loss of long-term investments increased by RMB 20.4 million (\$2.9 million), or 320.2%, to RMB 26.8 million in the fiscal year ended December 31, 2019 from RMB 6.4 million in the fiscal year ended December 31, 2018. We recorded an impairment loss of RMB 26.8 million (\$3.9 million) in the fiscal year ended December 31, 2019 related to impairment charges associated with two of our strategic investments, which failed to meet the expected milestones and operation forecasts and encountered shortage of working capital resulted from continuous negative operating cash flows in the fiscal year ended December 31, 2019.

Interest Income, Net of Interest Expense

Our interest income, net of interest expenses increased to RMB 3.3 million (\$0.5 million) in the fiscal year ended December 31, 2019 from RMB 2.4 million in the fiscal year ended December 31, 2018, primarily due to increased interest income derived from higher rate of return of interest on our average cash balance.

Foreign Currency Exchange Gains (Losses), Net

Our net foreign currency exchange gains or losses primarily reflect the foreign exchange fluctuation effects of exchanging between U.S. dollar and Renminbi. We recorded a net foreign currency exchange income of RMB 51,476 (\$7,394) in the fiscal year ended December 31, 2019, compared to a net income of RMB 1.0 million in the fiscal year ended December 31, 2018.

Income Tax Expense (Benefit)

We had an income tax benefit of RMB 7.1 million (\$1.0 million) in the fiscal year ended December 31, 2019, compared to income tax expense of RMB nil in the fiscal year ended December 31, 2018. The income tax benefit recorded in the fiscal year ended December 31, 2019 was related to effects of amortization of the difference between tax basis and accounting basis of the intangible assets and deferred revenues recorded in connection with Huanqiyimeng Acquisition.

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

Loss from continuing operations, net of income taxes, for the fiscal year ended December 31, 2019, was RMB 134.1 million (\$19.3 million), as compared to RMB 68.1 million in the prior period.

Net Income (Loss)

As a result of the above factors, we had net loss of RMB 129.2 million (\$18.6 million) in the fiscal year ended December 31, 2019, compared to net income of RMB 850.6 million in the fiscal year ended December 31, 2018.

We had basic and diluted loss per common share of RMB 2.52 (\$0.36) in the fiscal year ended December 31, 2019 compared to basic and diluted earnings per common share of RMB 18.25 in the fiscal year ended December 31, 2018.

Fiscal Year Ended December 31, 2018 Compared to Twelve Months Ended December 31, 2017

Net Revenues

Our total net revenues decreased by RMB 6.1 million, or 81.9%, to RMB 1.3 million in the fiscal year ended December 31, 2018 from RMB 7.4 million in the twelve months ended December 31, 2017, primarily due to the reclassification of rental income of RMB 5.9 million to other operating income, net, as a result of the adoption of the new revenue guidance ASC 606, effective since January 1, 2018. The remaining revenues for both periods were from K-12 education assessment services as well as certain other services.

Gross Profit (Loss)

Our gross profit decreased by RMB 5.3 million, or 219.8%, to a gross loss of RMB 2.9 million in the fiscal year ended December 31, 2018 from gross profit of RMB 2.4 million in the twelve months ended December 31, 2017. The decrease in gross profit was primarily due to the reclassification of net rental income of RMB 3.8 million into other operating income, net, in connection with the adoption of ASC 606. In addition, costs for K-12 education assessment services increased by RMB 1.7 million compared with the prior period due to the implementation of a strategic education quality monitoring project.

Operating Expenses

General and administrative expenses. Our general and administrative expenses decreased by RMB 5.3 million, or 10.8%, to RMB 43.5 million in the fiscal year ended December 31, 2018 from RMB 48.8 million in the twelve months ended December 31, 2017, primarily due to the decrease in non-recurring consulting fees of RMB 12.2 million associated with investing activities incurred in the twelve months ended December 31, 2017, netting off by the increase in the expenditure recorded under continuing operations of RMB 7.0 million in fiscal year ended December 31, 2018 related to the Tsinghua University academic project.

Sales and marketing expenses. Our sales and marketing expenses remained stable at RMB 5.6 million in the fiscal year ended December 31, 2018 and in the twelve months ended December 31, 2017, primarily due to the decrease of regular marketing and promotion expenses resulting from the above-stated strategic shift of business, netting off by selling and promotion expenses incurred for Project Shuang Chuang in the fiscal year ended December 31, 2018.

Research and development expenses. Our research and development expenses decreased slightly by RMB 0.1 million, or 0.6%, to RMB 19.6 million in the fiscal year ended December 31, 2018 from RMB 19.7 million in the twelve months ended December 31, 2017, primarily due to the decrease in share-based compensation expense of RMB 0.8 million and rent expense of 1.3 million, netting off by labor costs increase of RMB 2.0 million.

Impairment Loss of Long-term Investments

We recorded an impairment loss of RMB 6.4 million in the fiscal year ended December 31, 2018 related to the impairment charges associated with one of our strategic investments, which failed to meet the expected milestones and operation forecasts and encountered a shortage of working capital resulted from continuous negative operating cash flows.

Interest Income, net of Interest Expense

Our interest income, net of interest expenses increased to RMB 2.4 million in the fiscal year ended December 31, 2018 from RMB 1.0 million in the twelve months ended December 31, 2017, primarily due to increased interest income derived from higher average cash balances with proceeds received from the sale of the ATA Online Business during the fiscal year ended December 31, 2018.

Foreign Currency Exchange Gains (Losses), Net

Our net foreign currency exchange gains or losses primarily reflect the foreign exchange fluctuation effects of exchanging between U.S. dollar and Renminbi. We recorded a net foreign currency exchange income of RMB 1.0 million in the fiscal year ended December 31, 2018, compared to a net loss of RMB 0.2 million in the twelve months ended December 31, 2017.

Income Tax Expense (Benefit)

We had income tax expense of RMB nil in the fiscal year ended December 31, 2018, compared to an income tax benefit of RMB 0.6 million in the twelve months ended December 31, 2017. The income tax benefit recorded in the twelve months ended December 31, 2017 was to true up the income tax expenses with annual income tax returns of PRC entities.

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

Loss from continuing operations, net of income taxes, for the fiscal year ended December 31, 2018, was RMB 68.1 million, as compared to RMB 87.5 million in the prior period. The decrease of RMB 19.4 million was primarily due to the decrease in consulting fees of RMB 12.2 million associated with investing activities recorded in twelve-month period ended December 31, 2017 and RMB 8.8 million less in impairment loss associated with strategic long-term investments recorded in fiscal year ended December 31, 2018 compared with the prior period.

Income (Loss) from Operations of Discontinued Operations, net of Income Taxes

Loss from discontinued operations, net of income taxes, for the fiscal year ended December 31, 2018, was RMB 19.0 million, compared to income of RMB 61.4 million in the prior period. The change was primarily due to the fact that the operations of discontinued operations consolidated into the consolidated statements of comprehensive income (loss) of the fiscal year ended December 31, 2018 only covers the period from the beginning of fiscal year 2018 to the completion date of the sale of the ATA Online Business in August 2018, as compared to the twelve-month period ended December 31, 2017.

Gain from Disposal of Discontinued Operations, net of Income Taxes

We recognized a gain from the disposal of discontinued operations, net of income taxes, of RMB 937.6 million in connection with the sale of the ATA Online Business for the fiscal year ended December 31, 2018. Income tax incurred for the disposal of discontinued operations was RMB 188.9 million for the fiscal year ended December 31, 2018.

Net Income (Loss)

As a result of the above factors, we had net income of RMB 850.6 million in the fiscal year ended December 31, 2018, compared to net loss of RMB 26.1 million in the twelve months ended December 31, 2017. The increase in net income was primarily due to gain recognized from the sale of the ATA Online Business in the fiscal year ended December 31, 2018.

We had basic and diluted earnings per common share of RMB 18.25 in the fiscal year ended December 31, 2018 compared to basic and diluted loss per common share of RMB 0.69 in the twelve months ended December 31, 2017.

Nine Months Ended December 31, 2017 Compared to Nine Months Ended December 31, 2016

Net Revenues

Our total net revenues decreased by RMB 1.4 million, or 21.8%, to RMB 5.2 million in the nine months ended December 31, 2017 from RMB 6.6 million in the nine months ended December 31, 2016, primarily as a result of a decrease in rental income of RMB 1.2 million due to the change of tenant in one floor of our real estate properties.

Gross Profit

Our gross profit decreased by RMB 2.0 million, or 58.7%, to RMB 1.4 million in the nine months ended December 31, 2017 from RMB 3.4 million in the nine months ended December 31, 2016. The decrease in gross profit was primarily due to a decrease in net revenues of RMB 1.4 million from the nine months ended December 31, 2016 and increased content development costs of RMB 0.7 million related to the development of K-12 education assessment services in the nine months ended December 31, 2017.

Operating Expenses

General and administrative expenses. Our general and administrative expenses increased by RMB 12.7 million, or 46.2%, to RMB 40.1 million in the nine months ended December 31, 2017 from RMB 27.4 million in the nine months ended December 31, 2016, primarily due to increase in consulting fees associated with investing activities of RMB 12.2 million incurred in the nine months ended December 31, 2017.

Sales and marketing expenses. Our sales and marketing expenses increased by RMB 0.4 million, or 9.6%, to RMB 4.5 million in the nine months ended December 31, 2017 from RMB 4.1 million in the nine months ended December 31, 2016, primarily due to increased labor costs for our sales and marketing personnel.

Research and development expenses. Our research and development expenses slightly decreased by RMB 0.2 million, or 1.4%, to RMB 15.4 million in the nine months ended December 31, 2017 from RMB 15.6 million in the nine months ended December 31, 2016.

Impairment Loss of Long-term Investments

We recorded an impairment loss of RMB 15.2 million in the nine months ended December 31, 2017 related to the impairment charges associated with one of our strategic investments, which encountered a severe shortage of working capital resulting from continuous negative operating cash flows and turnover of key personnel in the fourth quarter of 2017.

Interest Income, net of Interest Expense

Our interest income, net of interest expenses decreased to RMB 0.6 million in the nine months ended December 31, 2017 from RMB 1.1 million in the nine months ended December 31, 2016, primarily due to average cash balance decreased compared with the prior period, as a result of the cash dividend payout in June and July 2017.

Foreign Currency Exchange Gains (Losses), Net

Our net foreign currency exchange losses primarily reflect the foreign exchange fluctuation effects of exchanging from Renminbi to U.S. dollars. We recorded a net foreign currency exchange loss of RMB 0.2 million in the nine months ended December 31, 2017, compared to a net loss of RMB 0.1 million in the nine months ended December 31, 2016.

Income Tax Expense (Benefit)

We had an income tax benefit of RMB 2.1 million in the nine months ended December 31, 2017, compared to income tax expense of RMB nil in the nine months ended December 31, 2016. The income tax benefit recorded in the nine months ended December 31, 2017 was due to the reversal of a withholding tax accrual as a result of decrease in the undistributed earnings generated by our PRC consolidated entities reported under continuing operations.

Loss from Continuing Operations, net of Income Taxes

As a result of the above factors, we had net loss of RMB 72.8 million from our continuing operations in the nine months ended December 31, 2017, compared to net loss of RMB 45.0 million in the nine months ended December 31, 2016. The increase in net loss from continuing operations of RMB 27.8 million was primarily due to an increase of RMB 12.2 million in consulting fees associated with investing activities and the impairment loss of long-term investments of RMB 15.2 million recorded during the nine months ended December 31, 2017.

Income from Discontinued Operations, net of Income Taxes

Our net income from our discontinued operations increased by RMB 11.6 million from RMB 89.0 million in the nine months ended December 31, 2016 to RMB 100.6 million in the nine months ended December 31, 2017. The increase in net income from discontinued operations was primarily due to the increase of net revenues from discontinued operations.

Net Income

As a result of the above factors, we had net income of RMB 27.8 million in the nine months ended December 31, 2017, compared to net income of RMB 43.9 million in the nine months ended December 31, 2016. The decrease in net income of RMB 16.1 million was primarily due to an increase of RMB 12.2 million in consulting fees associated with investing activities and RMB 15.2 million impairment loss of long-term investment recorded during the nine months ended December 31, 2017, both of which were reported under continuing operations, netting off by RMB 11.6 million increase in net income from discontinued operations compared with the prior period.

We had basic and diluted earnings per common share of RMB 0.48 in the nine months ended December 31, 2017 compared to basic and diluted earnings per common share of RMB 0.96 in the nine months ended December 31, 2016.

B. Liquidity and Capital Resources

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

As of December 31, 2019, we had RMB 154.2 million (\$22.1 million) in cash. Our cash and cash equivalents were primarily deposited with reputable banks in China and Hong Kong. We intend to finance our future working capital and capital expenditure needs principally from proceeds received from the Private Placement and cash generated from future operating activities.

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

The following table summarizes our net cash flows with respect to operating activities, investing activities and financing activities in the nine months ended December 31, 2017 and the fiscal years ended December 31, 2018 and 2019:

	For the nine months ended December 31,	For the fiscal year ended December 31,		
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(In thousands)			
Net cash provided by (used in) operating activities	95,606	(312,627)	(57,876)	(8,313)
Net cash provided by (used in) investing activities	(20,604)	1,201,736	(36,945)	(5,307)
Net cash provided by (used in) financing activities	(70,149)	(949,894)	57,566	8,269
Effect of foreign exchange rate changes on cash	(1,210)	(4,720)	867	124
Net increase (decrease) in cash	3,643	(65,505)	(36,388)	(5,227)
Cash and cash equivalents at beginning of the period	252,448	256,091	190,586	27,376
Cash and cash equivalents at end of the period	256,091	190,586	154,198	22,149

Operating Activities

Net cash used in operating activities was RMB 57.9 million (\$8.3 million) in the fiscal year ended December 31, 2019, mainly attributable to cash collection from sales of RMB 122.6 million, including RMB 112.0 million from the acquired Huanqiyimeng operations and RMB 10.6 million from other existing services (primarily from the K-12 education assessment services income and rental income), partially netting off by cash paid for payroll and compensation expenses of RMB 84.0 million and cash paid for other cost and operating expenses of RMB 96.5 million.

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

Net cash provided by operating activities was RMB 95.6 million in the nine months ended December 31, 2017, mainly attributable to cash collections from revenues of RMB 447.0 million, partially offset by cash paid for test monitoring costs and royalty fees of RMB 169.0 million and cash paid for payroll and other operating expenses of RMB 182.4 million.

Investing Activities

Net cash used in investing activities in the fiscal year ended December 31, 2019 of RMB 36.9 million (\$5.3 million) was primarily attributable to cash payment of RMB 34.7 million made in the Huanqiyimeng Acquisition (less cash acquired), cash payment of RMB 1.3 million for purchasing property and equipment, cash payment of RMB 6.0 million invested in Xiaozhi, netting off by RMB 4.9 million legal and consulting fee reimbursement received in the fiscal year ended December 31, 2019 associated with the sale of the ATA Online Business.

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

Net cash used in investing activities in the nine months ended December 31, 2017 of RMB 20.6 million was primarily attributable to RMB 31.1 million expenditures made for intangible assets, properties and equipment and RMB 5.5 million cash invested in EEO, which was offset by RMB 10.0 million cash received from the shareholders of ATA Online in connection with the termination of the VIE agreements (discussed in greater detail below) and proceeds of RMB 6.6 million received from the disposal of certain affiliated subsidiaries and investments.

Financing Activities

Net cash provided by financing activities in the fiscal year ended December 31, 2019 of RMB 57.6 million (\$8.3 million) was primarily attributable to RMB 61.7 million received from private placement and RMB 5.0 million capital increase of Muhua Shangce contributed by non-controlling shareholder, netting off by RMB 9.0 million repayment of short-term loans assumed in connection with the Huanqiyimeng Acquisition.

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

Net cash used in financing activities in the nine months ended December 31, 2017 of RMB 70.1 million was primarily attributable to a special cash dividend payment of RMB 65.7 million.

Indebtedness

Huanqiyimeng has entered into several loan agreements with banks amounting to RMB 14.0 million as of the Acquisition Date to finance part of the operating costs and expenses. As of December 31, 2019 and the date of this annual report, the outstanding balance of these loans was RMB 5.0 million. All the terms of such outstanding loans are within one year. Other than such loans, we do not have any other outstanding debt securities, contingent liabilities, mortgages, or liens.

Capital Expenditures

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

	For the nine months ended December 31, 2017	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019	
	RMB	RMB	RMB	US\$
	(In thousands)			
Total capital expenditures	31,060	9,356	1,285	185

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

Foreign Currency Exchange

The functional currency of our offshore entities and subsidiaries, including ATA Creativity Global, ATA BVI, Xing Wei and ACGIGL, is the U.S. dollar. The functional currency of our PRC subsidiaries is Renminbi. As of December 31, 2019, we had RMB 154.2 million (\$22.1 million) in cash and cash equivalents. The non-Renminbi portion of our revenues primarily consists of U.S. dollar-denominated royalty payments prior to the sale of the ATA Online Business, while the non-Renminbi portion of our expenditures primarily consists of professional fees and royalty payments, either denominated in U.S. dollars or Hong Kong dollars. After the sale of the ATA Online Business, the non-Renminbi portion of our revenues primarily consists of U.S. dollar-denominated referral fees paid by overseas schools and institutions and service fees collected from students enrolled from overseas, while the non-Renminbi portion of our expenditures primarily consists of professional fees incurred and overseas costs and expenses incurred mainly for educational travel services, either denominated in U.S. dollars, United Kingdom pound or Hong Kong dollars. Fluctuations in exchange rates, primarily those involving the U.S. dollar against the Renminbi, may affect our costs and operating margins and reported operating results. Under the current foreign exchange system in China, our operations in China may not be able to hedge effectively against currency risks, including any possible future Renminbi devaluation. See Item 3.D. “Key Information — Risk Factors — Risks Relating to Doing Business in the People’s Republic of China — Fluctuations in exchange rates could result in foreign currency exchange losses.”

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. Under current guidance, goodwill impairment loss is measured by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill by following procedures that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under the new amendments, the goodwill impairment test compares the fair value of a reporting unit with its carrying amount and an impairment charge is measured as the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments are effective for annual and interim reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements. Certain disclosures required by this guidance must be applied on a retrospective basis and others on a prospective basis. The guidance will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the effect of the disclosure requirements of ASU 2018-13 on the Company's consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments (“ASU 2019-04”). ASU 2019-04 includes the codification improvements resulting from the June 11, 2018 and November 1, 2018 Credit Losses Transition Resource Group (TRG) Meetings and the codification improvements to Update 2016-13 (Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments), etc. ASU 2019-04 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

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

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

Research and development are important to our continued success. We have devoted significant resources to continuous research and curriculum development. We have a dedicated and experienced research and curriculum development team based at our headquarters consisting of 4 permanent staff and supplemented by professional art teachers as subject experts to analyze market demand, study cutting-edge developments and techniques, and develop the most appropriate curriculum and teaching methods that can help us achieve our goals for providing up-to-date and high quality international educational services. We will continue to look selectively for experienced research and development talents to further increase our research and development capabilities. After the completion of the Huanquiyimeng Acquisition in 2019, our prior research and development policies applicable to our historically operated computer-based testing services, online education services and other related services do not apply anymore.

D. Trend Information

Other than as disclosed elsewhere in this annual report and the COVID-19 outbreak (see “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People’s Republic of China— The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results”), we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2019 to December 31, 2019 that are reasonably likely to have a material adverse effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2019:

	Payment Due				
	Total	Within 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands of RMB)				
Operating Lease Obligations (1)	37,293	23,376	13,558	359	—
Other commitments (2)	20,000	10,000	10,000	—	—

- (1) Our operating lease obligations comprise our office lease obligations for our offices in China. These office leases expire at different times over the period from the date of this annual report through December 2023, and will become subject to renewal. We will evaluate the need to renew each office lease on a case-by-case basis prior to its expiration.
- (2) On April 27, 2017, we entered into a five-year agreement with Tsinghua University, under which we will support the research of the Research Institute of Future Education and Assessment at Tsinghua University under certain circumstances with funding support of RMB 50.0 million, as of the date of this annual report, out of which RMB 20.0 million is still outstanding and will be paid in the following two years.

G. Safe Harbor

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

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

Name	Age	Position
Kevin Xiaofeng Ma	56	Chairman of the Board of Directors and Chief Executive Officer
Jun Zhang	47	President and Director
Andrew Yan	62	Director
Hope Ni	47	Director
Alec Tsui	70	Director
Zhilei Tong	45	Director
Amy Tung	48	Chief Financial Officer

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

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

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

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

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

Zhilei Tong is a director of our board. Mr. Tong founded Chinese All Digital Publishing Group Co., Ltd. in 2000 and is currently the chairman and CEO of ChineseAll Digital Publishing Group Co., Ltd. He is also the executive director of Jianshui Wenrui Enterprise Management Consulting Co., Ltd., the executive director and CEO of Beijing ChineseAll Culture Media Co., Ltd., the executive director and CEO of Beijing ChineseAll Education Technology Development Co., Limited, the executive director of Shanghai ChineseAll Culture Development Co., Ltd., the chairman of Hangzhou ChineseAll Information Technology Co., Ltd., the executive director of ChineseAll (Tianjin) Culture Development Co., Ltd., the chairman of ChineseAll (Tianjin) Culture and Education Industry Investment Management Co., Ltd., the executive director of Hubei ChineseAll Digital Publishing Co., Ltd., the executive director of Guangzhou Siyuetian Information Technology Co., Ltd., the executive director of Beijing Tangyuan and its partners Network Technology Co., Ltd., the executive director of ChineseAll Group Co., Limited, the executive director of Chinese Online Anti-Piracy Union Limited, the director of ATA Online (Beijing) Education Technology Co., Ltd., the chairman of Crazy Maple Studio, the representative of the Beijing Municipal People's Congress, a representative of the 16th People's Congress of Beijing Dongcheng District, a member of the Secretary General in the All-China Youth Federation and secretary general in education subsector, the vice-chairman in Youth Federation of Dongcheng District of Beijing, the vice president of China Audio Visual and Digital Publishing Association, and the vice-chairman of China Redactological Society. Mr. Tong received his bachelor's degree from Tsinghua University and his IMBA degree from Tsinghua University.

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

B. Compensation

For the fiscal year ended December 31, 2019, we and our subsidiaries paid aggregate cash compensation of approximately RMB 7.0 million (\$1.0 million) to our directors and executive officers as a group. We do not pay or set aside any amounts for pension, retirement or other benefits for our officers and directors.

Share Incentives

We adopted a share incentive plan, or the 2005 Plan, in April 2005, which was terminated in 2015. We adopted our 2008 Employee Share Incentive Plan, or the 2008 Plan, in January 2008. We amended and restated the 2008 Plan, or the Amended and Restated 2008 Plan, in December 2016, primarily to extend its term and expand the option pool thereunder to include the reserved but unissued common shares under the 2005 Plan. We amended and restated the Amended and Restated 2008 Plan, or the Second Amended and Restated 2008 Plan in October 2018, primarily to extend its term, expand the option pool thereunder, and change the number of common shares automatically added to the option pool on each calendar year during its term. Our share incentive plans are intended to promote our success and to increase shareholder value by providing additional means to attract, motivate, retain and reward selected directors, officers, employees and other eligible persons. An aggregate of 3,310,300 common shares were reserved for issuance under the 2005 Plan. Subject to any amendment of the Second Amended and Restated 2008 Plan by our directors, the maximum aggregate number of common shares that may be issued pursuant to all awards under the Second Amended and Restated 2008 Plan is 6,965,846 shares (which was increased from 6,399,377 shares under the Amended and Restated 2008 Plan), plus, unless the board of directors determines a lesser amount, an annual increase on January 1 of each calendar year beginning in 2019 equal to the lesser of (i) one percent (1%) of the total number of common shares issued and outstanding on December 31 of the immediately preceding calendar year, or (ii) such number of common shares as may be established by the board of directors. As of December 31, 2019, 7,423,815 shares were authorized for issuance under the Second Amended and Restated 2008 Plan.

We have granted share options and restricted shares under the 2005 Plan, the 2008 Plan, the Amended and Restated 2008 Plan and the Second Amended and Restated 2008 Plan to selected directors, officers, employees and individual consultants and advisors. As of December 31, 2019, we have issued a total of 2,101,290 share options (including 1,698,790 share options issued to Jun Zhang, our president and the performance targets of such share options were not determined until March 25, 2020) that are outstanding under such plans, of which 122,082 have vested. The contractual term of these options is ten years. As of December 31, 2019, we have also granted 1,102,136 restricted shares that are unvested and outstanding, and 693,362 restricted shares have vested in the fiscal year ended December 31, 2019.

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

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

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

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

Share options

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

*One fourth (1/4) of the total number of common shares of the Company subject to the option of Jun Zhang shall vest on April 1, 2021, on the condition of the fulfillment of certain performance targets which were determined on March 25, 2020. The vesting of the remaining three-quarters (3/4) of such option shall be further determined by the compensation committee of the Company upon the achievement of the target for the first one fourth (1/4) option. As of the date of this annual report, none of such option has been vested.

Restricted Shares

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

C. Board Practices

Duties of Directors

Under Cayman Islands 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 third amended and restated memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

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

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- issuing authorized but unissued shares;
- declaring dividends and distributions;
- exercising the borrowing powers of our company and mortgaging the property of our company;

- approving the transfer of shares of our company, including the registering of such shares in our share register; and
- exercising any other powers conferred by the shareholders' meetings or under our third amended and restated memorandum and articles of association.

Terms of Directors

We have a board of six directors divided into class A, class B and class C directors. As of the date of this annual report, the class A directors are Kevin Xiaofeng Ma and Zhilei Tong, the class B directors are Andrew Yan and Jun Zhang, and the class C directors are Hope Ni and Alec Tsui. One third of our directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one third) shall retire from office every year at our annual general meeting of shareholders on a rotating basis. Our class C directors Hope Ni and Alec Tsui were re-elected at our 2019 annual general meeting. Our class B directors Andrew Yan and Jun Zhang will retire from office and will be eligible for re-election at our 2020 annual general meeting. Our chief executive officer, which currently is Kevin Xiaofeng Ma, shall not, while holding office, be subject to retirement or be taken into account in determining the number of directors to retire in any year. Neither we nor our subsidiaries have any directors' service contracts providing for benefits upon termination of employment.

Board Practices

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

Audit Committee

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

Our audit committee is responsible for, among other things:

- appointing the independent auditor;
- pre-approving all auditing and non-auditing services permitted to be performed by the independent auditor;
- annually reviewing the independent auditor's report describing the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor and all relationships between the independent auditor and our company;
- setting clear hiring policies for employees and former employees of the independent auditor;
- reviewing with the independent auditor any audit problems or difficulties and management's responses;
- reviewing and approving all related party transactions on an ongoing basis;
- reviewing and discussing the annual audited financial statements with management and the independent auditor;
- reviewing and discussing with management and the independent auditor major issues regarding accounting principles and financial statement presentations;
- reviewing reports prepared by management or the independent auditor relating to significant financial reporting issues and judgments;
- discussing earnings press releases with management, as well as financial information and earnings guidance provided to analysts and rating agencies;
- reviewing with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on our financial statements;

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

Compensation Committee

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

Our compensation committee is responsible for:

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

Nominations Committee

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

Our nominations committee is responsible for, among other things:

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

Corporate Governance

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

Interested Transactions

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

D. Employees

We had 551, 101 and 768 employees as of December 31, 2017, 2018 and 2019 in China, respectively. As of December 31, 2019, we had 201 employees in teaching, 134 employees in teaching administration and affairs (among which are 4 permanent employees who are supplemented by professional art teachers focusing on research and curriculum development), 269 employees in sales and marketing, 32 in research and development and 132 in general and administrative functions.

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

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

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

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Section 13(d)(3) of the Exchange Act, of our common shares as of April 22, 2020 by:

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

	Common shares beneficially owned	
	Number (1)	Percent (2)
Directors and Executive Officers:		
Kevin Xiaofeng Ma(3)	25,160,508	39.6%
Andrew Yan	*	*
Hope Ni	*	*
Alec Tsui	*	*
Zhilei Tong	*	*
Amy Tung	*	*
Jun Zhang(4)	9,360,000	14.7%
Directors and Executive Officers Combined	36,226,328	57.0%
Principal Shareholders:		
Joingear Limited(5)	18,427,074	29.0%
HSBC International Trustee Limited(6)	9,804,588	15.4%
Able Knight Development Limited(3)	4,998,988	7.9%
Alpha Advantage Global Limited(7)	4,717,100	7.4%
Jiangong Zhao(7)	4,717,100	7.4%
Arts Consulting Limited(8)	9,360,000	14.7%
CL-TCC(9)	5,662,634	8.9%
Pengjian Shi(9)	5,662,634	8.9%
TCC Management Limited(9)	5,662,634	8.9%

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

- (1) The number of common shares beneficially owned by each of the listed persons includes common shares that such person has the right to acquire within 60 days after April 22, 2020.
- (2) Percentage of beneficial ownership for each of the persons listed above is determined by dividing (i) the number of common shares beneficially owned by such person by (ii) the total number of common shares outstanding, plus the number of common shares such person has the right to acquire within 60 days after April 22, 2020. The total number of our common shares outstanding as of April 22, 2020 is 63,476,808.
- (3) Includes (i) 1,734,446 common shares held by Kevin Xiaofeng Ma, (ii) 4,998,988 common shares held by Able Knight Development Limited, which is a British Virgin Islands company wholly-owned by Precious Time Holdings Limited and ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of the Cayman Islands with Kevin Xiaofeng Ma as the settlor and certain family members of Kevin Xiaofeng Ma as the beneficiaries, and (iii) 18,427,074 common shares held by Joingear Limited, which is a British Virgin Islands company with 100% of its issued and outstanding share capital owned by Kevin Xiaofeng Ma. Kevin Xiaofeng Ma is the sole director of Able Knight Development Limited. The business address of Able Knight Development Limited is Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands. Kevin Xiaofeng Ma and Zhilei Tong are directors of Joingear Limited. The business address of Joingear Limited is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.
- (4) Includes 9,360,000 common shares held by Arts Consulting Limited, or ArtsCL, which is a British Virgin Islands company. Jun Zhang is the sole director and holds 75% of the issued and outstanding share capital of ArtsCL. The business address of ArtsCL is CCS Trustees Limited, Mandar House, 3rd Floor, Johnson's Ghut, Tortola, British Virgin Islands. If Jun Zhang violates his non-compete obligation owned to the Company, the Company may require ArtsCL to either return 75% of the 9,360,000 common shares held by it, or pay to the Company an amount equal to the valuation of 75% of such common shares held by it if such common shares have been sold, calculated using the per share price of our common shares on August 6, 2019.

- (5) Includes 18,427,074 common shares held by Joingear Limited, based on Schedule 13D Amendment No. 7 filed jointly by Kevin Xiaofeng Ma, Able Knight Development Limited, Precious Time Holdings Limited, Ma Family Trust and Joingear Limited on December 24, 2019. Joingear Limited is a British Virgin Islands company. Kevin Xiaofeng Ma and Zhilei Tong are directors of Joingear Limited.
- (6) Based on a Schedule 13G Amendment No. 7 filed by HSBC International Trustee Limited on February 7, 2018. The registered address of HSBC International Trustee Limited is 21 Collyer Quay, #19-01 HSBC Building, Singapore 049320.
- (7) Based on a Schedule 13G Amendment No. 1 filed jointly by Jiangong Zhao, Dynamic Fame Limited and Alpha Advantage Global Limited on January 22, 2018. Includes 188,000 common shares held of record by Dynamic Fame Limited and 4,529,100 common shares held of record by Alpha Advantage Global Limited. Dynamic Fame Limited is a British Virgin Islands company and a wholly owned subsidiary of Alpha Advantage Global Limited. Alpha Advantage Global Limited is a British Virgin Islands company wholly owned by Jiangong Zhao. The business address of Alpha Advantage Global Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands and the business address of Dynamic Fame Limited is Office 1601, 16/F, 31 Queen's Road Central, Hong Kong.
- (8) Based on a Schedule 13D filed jointly by Jun Zhang and ArtsCL on August 15, 2019. ArtsCL is a British Virgin Islands company. Jun Zhang is the sole director of ArtsCL.
- (9) Based on a Schedule 13G filed jointly by CL-TCC, TCC Management Limited and Pengjian Shi on February 18, 2020. Includes 5,662,634 common shares held of record by CL-TCC. CL-TCC is a Cayman Islands company with 50% and 50% of its issued and outstanding share capital owned by CL Management Ltd. and TCC Management Limited, respectively. TCC Management Limited is a Cayman Islands company wholly owned by Pengjian Shi, who may be deemed to have the sole voting power and sole dispositive power with respect to the common shares held by CL-TCC. The business address of TCC Management Limited is c/o Solaris Corporate Services Ltd., P.O. Box 1990, 3rd Floor, FirstCaribbean House, George Town Grand Cayman KY1-1104, Cayman Islands and the business address of CL-TCC is Harbour Place, 2nd Floor, 103 South Church Street, P.O. Box 472, George Town, Grand Cayman KY1-1106, Cayman Islands.

None of our shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. See Item 6.B. "Directors, Senior Management and Employees — Compensation — Share Incentives" for information on options granted to our current directors and executive officers and Item 6.D. "Employees" for a discussion of our use of share incentive plans to incentivize our employees. To our knowledge, as of April 22, 2020, 100 of our common shares were held by holders of record in the United States. However, 25,873,068 common shares were registered in the name of a nominee of Citibank, N.A., the depository of our ADSs. It is likely that a large number of beneficial owners of our ADSs reside in the United States.

Historical Changes in Shareholdings of our Major Shareholders

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

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

Contractual Arrangements with Our Variable Interest Entity and its Shareholders

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

Expenses paid to a Related Company on behalf of Huanqiuyimeng

From the Acquisition Date to December 31, 2019, Huanqiuyimeng prepaid RMB 1,038,494 to Shanghai Aixue Culture Communication Co., Ltd. (“Shanghai Aixue”), a company owned by our president, Jun Zhang and one of our employees, by which Shanghai Aixue paid a total of RMB 1,037,126 of Huanqiuyimeng’s operating expenses on behalf of Huanqiuyimeng. As of December 31, 2019, the outstanding balance was RMB 1,368 due from Shanghai Aixue, which is unsecured, interest free and repayable on demand.

Loan Facility

In June 2018, the former president and director of ATA Creativity Global, Jack Huang, who resigned from ATA Creativity Global in August, 2019 entered into a three-year Commercial Loan Facility (the “Facility”) with China Minsheng Bank Beijing Branch to borrow up to RMB 15,000,000 to support the working capital needs of ATA Education. The Facility is secured by the 16th floor of the Gongyuan Real Estate Property owned by ATA Education, pursuant to which a corresponding three-year pledge agreement has been entered into between ATA Education and China Minsheng Bank Beijing Branch. Jack Huang and ATA Education also signed an agreement, pursuant to which all drawdowns received from China Minsheng Bank should be transferred to ATA Education and the interests of these drawdowns will be fully paid by ATA Education. ATA Education shall pay interest at 6.525% per annum on the commencement date for each drawdown. The interest rate is subject to potential adjustment based on premium interest rate stipulated by the People’s Bank of China. In June and July 2018, ATA Education received a total of RMB 15,000,000 drawdowns and this loan was fully paid back on October 15, 2018. The interest expenses incurred and paid by ATA Education for the fiscal year ended December 31, 2018 was RMB 249,683. On April 12, 2019, the 16th floor of the Gongyuan Real Estate Property was released from pledge and the Facility was terminated correspondingly.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated statements and other financial information.

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

Legal Proceedings

1. Beijing litigation

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

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

As of the date of this annual report, the Company has filed an application for jurisdiction objection with the Beijing Intermediate Court for each of the foregoing two cases, as the Company and its litigation counsel Jincheng Tongda & Neal Law Firm do not believe that Chinese court has jurisdiction over the subject matters mentioned in the complaints, but both cases have not yet been heard by the Beijing Intermediate Court.

2. Ningbo litigation

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

As of the date of this annual report, the case has not yet been heard by the Ningbo City Intermediate People's Court.

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

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

Dividend Policy

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

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

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

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

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

B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details.

Price Range of Our ADSs

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

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A. above.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our third amended and restated memorandum and articles of association contained under the heading "Description of Share Capital" in our [registration statement on Form F-1 \(File No. 333-148512\)](#) originally filed with the SEC on January 8, 2008, as amended. At our 2019 Annual General Meeting of Shareholders held on September 12, 2019, it was resolved as a special resolution that our third amended and restated memorandum and articles of association be amended to change all references to the name of the Company in third amended and restated memorandum and articles of association from "ATA Inc." to "ATA Creativity Global." Other than such name change, all provisions of our third amended and restated memorandum and articles of association remain unchanged.

C. Material Contracts

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

D. Exchange Controls

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

Regulation of Foreign Exchange

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

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

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

Dividend Distributions

We have adopted a holding company structure, and our holding companies may rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for their cash requirements, including the funds necessary to service any debt we may incur or financing we may need for operations not carried through our Chinese subsidiaries. Chinese legal restrictions permit payments of dividends by our Chinese subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with Chinese accounting standards and regulations. Our Chinese subsidiaries are also required under Chinese laws and regulations to allocate at least 10% of their after-tax profits determined in accordance with PRC GAAP to statutory reserves until such reserves reach 50% of the company’s registered capital. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As of December 31, 2019, our Chinese subsidiaries allocated RMB nil million (\$nil million) to the general reserve fund. Any limitations on the ability of our Chinese subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

E. Taxation

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

Cayman Islands Taxation

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

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

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

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

People's Republic of China Taxation

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

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

United States Federal Income Taxation

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

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

- persons that hold ADSs or common shares as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares (including ADSs and common shares) entitled to vote.

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

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

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

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

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

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

Dividends on ADSs or Common Shares

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

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

Sales and Other Dispositions of ADSs or Common Shares

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

Passive Foreign Investment Company

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2019. However, PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets and, since the value of our assets is to be determined in large part by reference to the market prices of our ADSs and common shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC for any taxable year.

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

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

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

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

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

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

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

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

U.S. Information Reporting and Backup Withholding Rules

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

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

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display

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

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

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

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

I. Subsidiaries Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

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

Foreign Currency Risk

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

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in PRC political and economic conditions and PRC foreign exchange policies. For instance, in August 2015, the People's Bank of China, or PBOC, changed the way it calculates the mid-point price of Renminbi against U.S. dollar, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. The value of Renminbi against the U.S. dollar appreciated approximately 5.8% in 2017, depreciated approximately 5.0% in 2018, and depreciated approximately 1.6% in 2019. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuations of the Renminbi against the U.S. dollar.

The functional currency of our offshore entities and subsidiaries, including ATA Creativity Global, ATA BVI, Xing Wei and ACGIGL, is the U.S. dollar, which results in our exposure to foreign currency exchange risk. Primarily as a result of the depreciation of the Renminbi against the U.S. dollar, the translation of the net assets of our offshore entities and subsidiaries, including ATA Creativity Global, ATA BVI, Xing Wei and ACGIGL to Renminbi during consolidation resulted in translation gains of RMB 810,197 (\$116,378) which we recognized as a component of other comprehensive income for the fiscal year ended December 31, 2019. If the Renminbi against U.S. dollar as of December 31, 2019 had appreciated by 10% from 6.9762 to 6.3420 as of December 31, 2019, the other comprehensive losses would have increased by RMB 9,372,677 (\$1,346,301). Further, we recognized a net foreign currency exchange gain of RMB 56,630 (\$8,134) as a result of the re-measurement of our foreign currency denominated monetary assets and liabilities. If the Renminbi had appreciated against the U.S. dollar as of December 31, 2019 by 10% from 6.9762 to 6.3420 as of December 31, 2019, our foreign currency exchange gain would have decreased by RMB 856,102 (\$122,972) to be a foreign exchange loss.

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

Inflation

China has generally not experienced significant inflation in recent years. According to China's National Bureau of Statistics, the changes in China's consumer price index was 1.6%, 2.1% and 2.9 %in the years 2017, 2018 and 2019, respectively. In February 2020, the year-over-year change in China's consumer price index was 5.2%. Neither inflation nor deflation has had a material impact on our results of operations to date, and we do not currently expect the recent inflation in China to have a significant effect on our operations.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees Payable by ADS Holders

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

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

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

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

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

- taxes (including applicable interest and penalties) and other governmental charges;

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

Fees and Other Payments Made by the Depositary to Us

We had received from our depositary a reimbursement of \$0.2 million during the fiscal year ended December 31, 2019.

PART II.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

The rights of securities holders have not been materially modified.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

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

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

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 using criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the internal control over financial reporting was effective as of December 31, 2019 based on the criteria established in this Internal Control-Integrated Framework (2013). We acquired Huanqiyimeng in August 2019 and as permitted by applicable rules, our management excluded from our assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, Huanqiyimeng's internal control over financial reporting associated with total assets of RMB 436.6 million and total revenues of RMB 91.4 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2019. Huanqiyimeng's internal control over financial reporting will be included in our management report for the fiscal year ending December 31, 2020. This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

We are in the process of evaluating the existing controls and procedures of Huanqiyimeng and integrating Huanqiyimeng into our internal control over financial reporting.

There were no other significant changes in our internal control over financial reporting that occurred during the period from the Acquisition Date to December 31 2019 covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEE AND SERVICES

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

	For the fiscal year ended		
	December 31, 2018	December 31, 2019	
	RMB	RMB	US\$
Audit fees(1)	6,278,275	3,126,438	448,501
Audit-related fees(2)	1,441,375	1,121,069	161,032

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

(2) “Audit-related fees” means the aggregate fees billed or payable for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under “Audit fees.” Services comprising the fees disclosed under the category of “Audit-related fees” in the fiscal years ended December 31, 2018 and 2019 were limited procedures performed in relation to our quarterly financial information.

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

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

None.

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

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

- Nasdaq Stock Market Rule 5605(b)(1) requires a Nasdaq-listed company to have a board of directors composed of at least a majority of independent directors. In this regard we have elected to adopt the practices of our home country, the Cayman Islands, which does not require us to have a majority of the board of directors composed of independent directors at this time.

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

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III.

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

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

ITEM 19. EXHIBITS

Index to Exhibits

Exhibit Number	Description
1.1	<u>Third Amended and Restated Memorandum and Articles of Association of the Registrant (1)</u>
2.1	<u>Form of Common Share Certificate (2)</u>
2.2	<u>Form of Deposit Agreement between the Registrant and Citibank, N.A., as depository (3)</u>
2.3	<u>Form of American depository receipt evidencing American depository shares (4)</u>
2.4*	<u>Description of Securities</u>
4.1	<u>2005 Share Incentive Plan of ATA Testing Authority (Holdings) Limited (5)</u>
4.2	<u>2008 Employee Share Incentive Plan of the Registrant and form of ISO Option Agreement and NQSO Option Agreement (6)</u>
4.3	<u>2008 Employee Share Incentive Plan of the Registrant (amended and restated as of December 30, 2016) (7)</u>
4.4	<u>2008 Employee Share Incentive Plan of the Registrant (amended and restated as of October 26, 2018) (8)</u>
4.5	<u>Form of Indemnification Agreement between the Registrant and its directors (9)</u>
4.6	<u>Framework Agreement on Restructuring, dated May 20, 2015 (10)</u>
4.7	<u>Share Purchase Agreement among the Registrant, ATA Testing Authority (Holdings) Limited, Xing Wei Institute (Hong Kong) Limited, ATA Learning (Beijing) Inc., Delta Horizon Limited, Alpha Metric Horizon Limited, New Beauty Holdings Limited, Kevin Xiaofeng Ma and other parties listed therein, dated February 6, 2018 (11)</u>
4.8	<u>Loan Agreement between ATA Testing Authority (Beijing) Limited and Xiaofeng Ma, dated March 15, 2018 (12)</u>
4.9	<u>Loan Agreement between ATA Testing Authority (Beijing) Limited and Haichang Xiong, dated March 15, 2018 (13)</u>
4.10	<u>Call Option and Cooperation Agreement among ATA Testing Authority (Beijing) Limited, Xiaofeng Ma, Haichang Xiong and ATA Intelligent Learning (Beijing) Technology Limited, dated March 15, 2018 (14)</u>
4.11	<u>Exclusive Technical Consulting and Services Agreement between ATA Intelligent Learning (Beijing) Technology Limited and ATA Testing Authority (Beijing) Limited, dated March 15, 2018 (15)</u>
4.12	<u>Equity Interest Pledge Agreement between ATA Testing Authority (Beijing) Limited and Xiaofeng Ma, dated March 15, 2018 (16)</u>
4.13	<u>Equity Interest Pledge Agreement between ATA Testing Authority (Beijing) Limited and Haichang Xiong, dated March 15, 2018 (17)</u>
4.14	<u>Power of Attorney by Xiaofeng Ma in favor of ATA Testing Authority (Beijing) Limited, dated March 15, 2018 (18)</u>
4.15	<u>Power of Attorney by Haichang Xiong in favor of ATA Testing Authority (Beijing) Limited, dated March 15, 2018 (19)</u>
4.16	<u>Supplementary Agreement to ATA Intelligent Learning (Beijing) Technology Limited VIE Agreements among ATA Education Technology (Beijing) Limited, ATA Intelligent Learning (Beijing) Technology Limited, Xiaofeng Ma and Haichang Xiong, dated March 19, 2019 (20)</u>
4.17*	<u>Supplementary Agreement II to ATA Intelligent Learning (Beijing) Technology Limited VIE Agreements among ATA Education Technology (Beijing) Limited, ATA Intelligent Learning (Beijing) Technology Limited, Xiaofeng Ma and Haichang Xiong, dated April 20, 2019</u>

- 4.18 [Deed of Assignment among Ningbo Meishan Bonded Port Area Maikaiwen Equity Investment Management Partnership \(LP\), Ningbo Meishan Bonded Port Area Zhenming Equity Investment Management Partnership \(LP\), Ningbo Meishan Bonded Port Area Xinyi Equity Investment Management Partnership \(LP\), Ningbo Meishan Bonded Port Area Qixin Equity Investment Management Partnership \(LP\), ZHUHAI LIHONGHUAYING EQUITY INVESTMENT PARTNERSHIP \(LP\), New Beauty Holdings Limited, Kevin Xiaofeng Ma, the Registrant, ATA Testing Authority \(Holdings\) Limited and ATA Learning \(Beijing\) Inc., dated June 27, 2018 \(21\)](#)
- 4.19 [Equity Transfer Agreement among the Registrant, Arts Consulting Limited, ACG International Group Limited, Beijing Huanqiyimeng Education Consultation Corp., Jun Zhang, and Rui Deng, dated June 28, 2019 \(22\)](#)
- 4.20 [Consent Letter by Arts Consulting Limited, Jun Zhang and Rui Deng in favor of the Registrant, dated August 6, 2019 \(23\)](#)
- 4.21* [Letter by the Registrant in favor of Arts Consulting Limited, Jun Zhang and Rui Deng dated December 30, 2019](#)
- 4.22 [Subscription Agreement between the Registrant and CL-TCC, dated December 15, 2019 \(24\)](#)
- 4.23 [Investor Rights Agreement between the Registrant and CL-TCC, dated December 15, 2019 \(25\)](#)
- 8.1* [List of Subsidiaries](#)
- 11.1 [Code of Conduct \(26\)](#)
- 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 KPMG Huazhen LLP](#)
- 15.2* [Consent of Jincheng Tongda & Neal Law Firm](#)
- 15.3* [Opinion of Jincheng Tongda & Neal Law Firm](#)
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document
- (1) Incorporated by reference to Exhibit 3.2 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (2) Incorporated by reference to Exhibit 4.1 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (3) Incorporated by reference to the Exhibit 99.(A) to the Registration Statement on Form F-6 (File No. 333-148641) filed with the SEC on January 14, 2008.
- (4) Incorporated by reference to the Prospectus filed with the SEC on October 1, 2019 supplement to the Registration Statement on Form F-6 (File No. 333-148641) filed with the SEC on January 14, 2008.

- (5) Incorporated by reference to Exhibit 10.1 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (6) Incorporated by reference to Exhibit 10.2 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (7) Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-215674) filed with the Securities and Exchange Commission on January 24, 2017.
- (8) Incorporated by reference to Exhibit 4.4 to the Registrant's annual report on Form 20-F (File No.001-33910), filed with the SEC on April 18, 2019.
- (9) Incorporated by reference to Exhibit 10.3 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (10) Incorporated by reference to Exhibit 4.16 to the Registrant's annual report on Form 20-F (File No. 001-33910), filed with the SEC on June 24, 2015.
- (11) Incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 6-K (File No. 001-33910) filed with the SEC on February 6, 2018.
- (12) Incorporated by reference to Exhibit 4.18 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (13) Incorporated by reference to Exhibit 4.19 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (14) Incorporated by reference to Exhibit 4.20 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (15) Incorporated by reference to Exhibit 4.21 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (16) Incorporated by reference to Exhibit 4.22 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (17) Incorporated by reference to Exhibit 4.23 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (18) Incorporated by reference to Exhibit 4.24 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (19) Incorporated by reference to Exhibit 4.25 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (20) Incorporated by reference to Exhibit 4.16 to the Registrant's annual report on Form 20-F (File No.001-33910), filed with the SEC on April 18, 2019.
- (21) Incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 6-K (File No. 001-33910) filed with the SEC on June 27, 2018.
- (22) Incorporated by reference to Exhibit 99.2 to the Registrant's Report on Form 6-K (File No. 001-33910) filed with the SEC on June 28, 2019.
- (23) Incorporated by reference to Exhibit 99.3 to Jun Zhang's Report on Schedule 13-D (File No. 001-83689) filed with the SEC on August 15, 2019.
- (24) Incorporated by reference to Exhibit 99.2 to the Registrant's Report on Form 6-K (File No. 001-33910) filed with the SEC on December 18, 2019.

(25) Incorporated by reference to Exhibit 99.3 to the Registrant's Report on Form 6-K (File No. 001-33910) filed with the SEC on December 18, 2019.

(26) Incorporated by reference to Exhibit 99.1 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.

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

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

SIGNATURE

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

ATA Creativity Global

/s/ Amy Tung

Name: Amy Tung

Title: Chief Financial Officer

Date: April 28, 2020

ATA Creativity Global
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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
ATA Creativity Global:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ATA Creativity Global and subsidiaries (the Company) as of December 31, 2018 and 2019, the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for nine-month period ended December 31, 2017 and each of the two years ended December 31, 2019 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2019, and the results of its operations and its cash flows for nine-month period ended December 31, 2017 and each of the two years ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

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

Basis for Opinion

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

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

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

/s/ KPMG Huazhen LLP

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

Beijing China
April 28, 2020

ATA CREATIVITY GLOBAL
Consolidated Balance Sheets

	Note	December 31, 2018 RMB	December 31, 2019 RMB	December 31, 2019 USD
ASSETS				
<i>Current assets:</i>				
Cash and cash equivalents		190,586,342	154,197,758	22,149,122
Accounts receivable, net		439,783	214,591	30,824
Subscription receivable	(19)	—	8,530,931	1,225,392
Prepaid expenses and other current assets	(4)	7,836,092	16,490,369	2,368,693
Loan receivable, net	(5)	14,532,685	4,126,502	592,735
Total current assets		213,394,902	183,560,151	26,366,766
Long-term investments	(6)	66,390,898	45,726,391	6,568,185
Property and equipment, net	(8)	37,430,741	42,070,794	6,043,091
Intangible assets, net	(9)	17,122,578	135,599,770	19,477,688
Goodwill	(9)	—	200,478,795	28,796,977
Other non-current assets		799,652	16,402,750	2,356,108
Right-of-use assets	(10)	—	40,786,291	5,858,584
Deferred income tax assets	(15)	—	11,464,891	1,646,829
Total assets		335,138,771	676,089,833	97,114,228
LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY				
<i>Current liabilities:</i>				
Accrued expenses and other payables (including accrued expenses and other payables of VIE without recourse to the Company of RMB 455,577 and nil as of December 31, 2018 and 2019, respectively)	(12)	18,111,939	47,747,054	6,858,437
Short-term loan	(11)	—	4,991,000	716,912
Payable for business acquisition (including payable for business acquisition of VIE without recourse to the Company of nil and RMB 19,642,082 as of December 31, 2018 and 2019, respectively)	(3)	—	19,642,082	2,821,409
Lease liabilities-current	(10)	—	20,556,017	2,952,687
Deferred revenues	(14)	1,633,976	171,880,131	24,689,036
Total current liabilities		19,745,915	264,816,284	38,038,481
Other non-current liabilities	(10)	—	12,500,120	1,795,530
Deferred income tax liabilities	(15)	—	48,241,809	6,929,502
Total liabilities		19,745,915	325,558,213	46,763,513
<i>Mezzanine equity-redeemable non-controlling interests</i>	(16)	39,208,619	44,896,428	6,448,968
<i>Shareholders' equity:</i>				
Common shares:				
Par value USD 0.01, authorized: 500,000,000 shares				
Issued: 48,177,742 and 64,044,572 shares as of December 31, 2018 and 2019, respectively				
Outstanding: 45,796,886 and 62,357,078 shares as of December 31, 2018 and 2019				
		3,534,871	4,692,312	674,008
Treasury shares—585,358 common shares as of December 31, 2018 and 2019, at cost				
		(27,737,073)	(27,737,073)	(3,984,181)
Additional paid-in capital		410,195,990	560,814,066	80,555,900
Accumulated other comprehensive loss		(38,288,364)	(37,478,167)	(5,383,402)
Accumulated deficits		(71,888,585)	(200,151,065)	(28,749,902)
Total shareholders' equity attributable to ATA Creativity Global		275,816,839	300,140,073	43,112,423
Non-redeemable non-controlling interests		367,398	5,495,119	789,324
Total shareholders' equity		276,184,237	305,635,192	43,901,747
Commitments and contingencies	(23)			
Total liabilities, mezzanine equity and shareholders' equity		335,138,771	676,089,833	97,114,228

See accompanying notes to consolidated financial statements.

ATA CREATIVITY GLOBAL
Consolidated Statements of Comprehensive Income (Loss)

	Note	Nine months ended		Twelve months ended		Twelve months ended	
		December 31		December 31		December 31	
		2017	2018	2019	2019		
		RMB	RMB	RMB	USD		
Net revenues	(14)	5,185,822	1,338,592	97,770,167	14,043,806		
Cost of revenues		3,785,865	4,251,451	61,914,502	8,893,462		
Gross profit (loss)		1,399,957	(2,912,859)	35,855,665	5,150,344		
Operating expenses:							
Research and development		15,415,780	19,594,484	11,817,255	1,697,442		
Sales and marketing		4,539,473	5,570,169	34,112,212	4,899,913		
General and administrative		40,132,709	43,507,856	81,923,516	11,767,577		
Impairment loss of intangible assets and other non-current assets	(9)	—	—	8,932,439	1,283,065		
Provision for loan receivable and other receivables	(5)	—	—	17,430,825	2,503,781		
Total operating expenses		60,087,962	68,672,509	154,216,247	22,151,778		
Other operating income, net		—	3,793,418	588,147	84,482		
Loss from continuing operations		(58,688,005)	(67,791,950)	(117,772,435)	(16,916,952)		
Other income (loss):							
Share of losses of equity method investments	(6)	(1,395,234)	—	(7,850)	(1,128)		
Impairment loss of long-term investments	(6)	(15,216,510)	(6,380,802)	(26,814,507)	(3,851,663)		
Change in fair value of long-term investment	(6)	—	2,750,000	—	—		
Interest income, net of interest expenses		608,405	2,409,090	3,281,701	471,387		
Foreign currency exchange gains (losses), net		(221,605)	960,188	51,476	7,394		
Total other loss, net		(16,224,944)	(261,524)	(23,489,180)	(3,374,010)		
Loss from continuing operations before income taxes		(74,912,949)	(68,053,474)	(141,261,615)	(20,290,962)		
Income tax benefit	(15)	(2,109,096)	—	(7,149,119)	(1,026,907)		
Loss from continuing operations, net of income taxes		(72,803,853)	(68,053,474)	(134,112,496)	(19,264,055)		
Discontinued operations:	(26)						
Income (loss) from operations of discontinued operations, net of income taxes		100,640,933	(18,950,969)	—	—		
Gain from disposal of discontinued operations, net of income taxes		—	937,605,948	4,894,197	703,007		
Income from discontinued operations, net of income taxes		100,640,933	918,654,979	4,894,197	703,007		
Net income (loss)		27,837,080	850,601,505	(129,218,299)	(18,561,048)		
Net loss attributable to redeemable non-controlling interests from continuing operations		(1,444,363)	(3,181,199)	(2,820,682)	(405,166)		
Net loss attributable to non-redeemable non-controlling interests from continuing operations		—	(1,132,602)	(4,143,628)	(595,195)		
Net loss attributable to non-redeemable non-controlling interests from discontinued operations		(352,101)	(10,608)	—	—		
Net income (loss) attributable to ATA Creativity Global		29,633,544	854,925,914	(122,253,989)	(17,560,687)		
Net loss from continuing operations attributable to ATA Creativity Global		(71,359,490)	(63,739,673)	(127,148,186)	(18,263,694)		
Net income from discontinued operations attributable to ATA Creativity Global		100,993,034	918,665,587	4,894,197	703,007		
Other comprehensive income (loss):							
Foreign currency translation adjustment, net of nil income tax		(2,335,054)	(11,437,409)	810,197	116,378		
Reclassification adjustment for loss on available-for-sale investment included in net income, net of nil income tax		553,870	—	—	—		
Total other comprehensive income (loss)		(1,781,184)	(11,437,409)	810,197	116,378		
Comprehensive income (loss)		26,055,896	839,164,096	(128,408,102)	(18,444,670)		
Comprehensive loss attributable to redeemable non-controlling interests from continuing operations		(1,444,363)	(3,181,199)	(2,820,682)	(405,166)		
Comprehensive loss attributable to non-redeemable non-controlling interests from continuing operations		—	(1,132,602)	(4,143,628)	(595,195)		
Comprehensive loss attributable to non-redeemable non-controlling interests from discontinued operations		(352,101)	(10,608)	—	—		
Comprehensive income (loss) attributable to ATA Creativity Global		27,852,360	843,488,505	(121,443,792)	(17,444,309)		
Basic and diluted earnings (losses) per common share attributable to ATA Creativity Global	(25)	0.48	18.25	(2.52)	(0.36)		
Basic and diluted losses from continuing operations per common share attributable to ATA Creativity Global	(25)	(1.72)	(1.81)	(2.62)	(0.37)		
Basic and diluted earnings from discontinued operations per common share attributable to ATA Creativity Global	(25)	2.20	20.06	0.10	0.01		

See accompanying notes to consolidated financial statements.

ATA CREATIVITY GLOBAL
Consolidated Statements of Changes in Equity

	Common shares		Treasury Shares	Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings (accumulated deficit)	Total shareholders' equity attributable to ATA Creativity Global	Non-redeemable non-controlling interests	Total shareholders' equity
	Number of shares	Amount							
		RMB							
Balance as of March 31, 2017	45,782,724	3,533,912	(27,737,073)	402,631,430	(25,069,771)	38,018,802	391,377,300	1,079,928	392,457,228
Net income (loss)	—	—	—	—	—	29,633,544	29,633,544	(352,101)	29,281,443
Foreign currency translation adjustment, net of nil income tax	—	—	—	—	(2,335,054)	—	(2,335,054)	—	(2,335,054)
Reclassification adjustment for loss on available-for-sale investment included in net income, net of nil income tax (Note 6)	—	—	—	—	553,870	—	553,870	—	553,870
Share-based compensation	—	—	—	15,135,646	—	—	15,135,646	—	15,135,646
Issuance of common shares with net-settlement of employee individual income tax	14,162	959	—	(189,617)	—	—	(188,658)	—	(188,658)
Special cash dividend (Note 20)	—	—	—	(27,679,769)	—	(38,018,802)	(65,698,571)	—	(65,698,571)
Acquisition of non-redeemable non-controlling interests	—	—	—	—	—	—	—	350,000	350,000
Disposal of non-redeemable non-controlling interests	—	—	—	—	—	—	—	(734,531)	(734,531)
Redeemable non-controlling interests redemption value accretion (Note 16)	—	—	—	—	—	(3,748,639)	(3,748,639)	—	(3,748,639)
Balance as of December 31, 2017	45,796,886	3,534,871	(27,737,073)	389,897,690	(26,850,955)	25,884,905	364,729,438	343,296	365,072,734
Net income (loss)	—	—	—	—	—	854,925,914	854,925,914	(1,143,210)	853,782,704
Foreign currency translation adjustment, net of nil income tax	—	—	—	—	(11,437,409)	—	(11,437,409)	—	(11,437,409)
Share-based compensation	—	—	—	20,591,899	—	—	20,591,899	—	20,591,899
Issuance of common shares with net-settlement of employee individual income tax	—	—	—	(1,727,040)	—	—	(1,727,040)	—	(1,727,040)
Exercise of share options	—	—	—	1,433,441	—	—	1,433,441	—	1,433,441
Special cash dividend (Note 20)	—	—	—	—	—	(946,613,862)	(946,613,862)	—	(946,613,862)
Disposal of discontinued operations	—	—	—	—	—	—	—	(332,688)	(332,688)
Redeemable non-controlling interests redemption value accretion (Note 16)	—	—	—	—	—	(6,085,542)	(6,085,542)	—	(6,085,542)
Sale of non-controlling interests (Note 16)	—	—	—	—	—	—	—	1,500,000	1,500,000
Balance as of December 31, 2018	45,796,886	3,534,871	(27,737,073)	410,195,990	(38,288,364)	(71,888,585)	275,816,839	367,398	276,184,237
Net loss	—	—	—	—	—	(122,253,989)	(122,253,989)	(4,143,628)	(126,397,617)
Foreign currency translation adjustment, net of nil income tax	—	—	—	—	810,197	—	810,197	—	810,197
Share-based compensation	—	—	—	4,809,454	—	—	4,809,454	—	4,809,454
Issuance of common shares with net-settlement of employee individual income tax	1,537,558	103,697	—	(230,420)	—	—	(126,723)	—	(126,723)
Issuance of common shares for acquisition of Huanquiyimeng (Note 3)	9,360,000	656,997	—	76,211,666	—	—	76,868,663	—	76,868,663
Redeemable non-controlling interests redemption value accretion (Note 16)	—	—	—	—	—	(6,008,491)	(6,008,491)	—	(6,008,491)
Issuance of common shares upon private placement	5,662,634	396,747	—	69,827,376	—	—	70,224,123	—	70,224,123
Non-redeemable non-controlling interests resulting from acquisition of Huanquiyimeng (Note 3)	—	—	—	—	—	—	—	6,771,349	6,771,349
Capital contributed by non-redeemable non-controlling interests (Note 16)	—	—	—	—	—	—	—	2,500,000	2,500,000
Balance as of December 31, 2019	62,357,078	4,692,312	(27,737,073)	560,814,066	(37,478,167)	(200,151,065)	300,140,073	5,495,119	305,635,192
Balance as of December 31, 2019-USD	674,008	(3,984,181)	80,555,900	(5,383,402)	(28,749,902)	43,112,423	789,324	43,901,747	

See accompanying notes to consolidated financial statements.

ATA CREATIVITY GLOBAL
Consolidated Statements of Cash Flows

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31	
	2017	2018	2019	2019
	RMB	RMB	RMB	USD
Cash flows from operating activities:				
Net income (loss)	27,837,080	850,601,505	(129,218,299)	(18,561,048)
<i>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</i>				
Gain from disposal of long-term investments	(3,244,457)	—	—	—
Provision for doubtful accounts	1,363,506	3,611,845	—	—
Gain from disposal of discontinued operations	—	(1,126,543,946)	(4,894,197)	(703,007)
Depreciation and amortization	9,179,835	13,331,272	17,545,060	2,520,190
Loss (gain) from disposal of property and equipment	(507)	893	—	—
Share-based compensation	15,135,646	20,591,899	4,809,454	690,835
Deferred income tax expense (benefit)	1,454,773	(25,969,955)	(8,054,197)	(1,156,913)
Share of losses of equity method investments	1,878,172	—	7,850	1,128
Impairment loss of long-term investments	15,216,510	6,380,802	26,814,507	3,851,663
Provision for loan receivable and other receivables	—	—	17,430,825	2,503,781
Impairment loss of intangible assets and other non-current assets	—	—	8,932,439	1,283,065
Change in fair value of long-term investment (Note 6)	—	(2,750,000)	—	—
Foreign currency exchange loss (gain)	(653,103)	42,887	(56,630)	(8,134)
<i>Changes in operating assets and liabilities, net of effect of acquisition:</i>				
Accounts receivable	(45,307,278)	41,133,635	225,192	32,347
Prepaid expenses and other current assets	(3,315,799)	(13,568,373)	(3,615,775)	(519,375)
Other non-current assets	309,497	(649,463)	(10,066,863)	(1,446,014)
Income tax payable	14,953,642	(14,953,642)	679,961	97,670
Accrued expenses and other payables	60,115,517	(67,205,665)	14,737,959	2,116,975
Deferred revenues	682,605	3,320,001	6,846,155	983,389
Net cash provided by (used in) operating activities	95,605,639	(312,626,305)	(57,876,559)	(8,313,448)
Cash flows from investing activities:				
Cash paid for property and equipment	(4,957,034)	(7,110,298)	(1,284,816)	(184,552)
Cash paid for education assessment casework	(2,584,558)	—	—	—
Loan lent to Beijing Biztour (Note 5)	—	(13,745,856)	—	—
Cash paid for software platform of Project Shuang Chuang	(8,599,056)	(2,245,283)	—	—
Cash receipt from property and equipment disposal	1,060	2,760	—	—
Proceeds from disposal of affiliates	4,603,550	—	—	—
Proceeds received from the sale of non-redeemable non-controlling interests (Note 16)	—	1,500,000	—	—
Proceeds from disposal of a subsidiary, less cash of the subsidiary	1,996,848	—	—	—
Cash received from shareholder (Note 22)	10,000,000	—	—	—
Payment for acquisition of a subsidiary, less cash acquired	(645,492)	—	(34,554,702)	(4,963,472)
Proceeds from acquisition of a subsidiary, less cash paid	—	215,000	—	—
Cash paid for long-term investments (Note 6)	(5,500,000)	—	(6,000,000)	(861,846)
Proceeds from disposal of discontinued operations, net of cash disposed in the amount of RMB 147,738,996 and nil for the years ended December 31, 2018 and 2019	—	1,223,119,391	4,894,197	703,007
Payment for ACT license	(14,919,647)	—	—	—
Net cash provided by (used in) investing activities	(20,604,329)	1,201,735,714	(36,945,321)	(5,306,863)
Cash flows from financing activities:				
Cash paid for employee individual income tax for net-settlement of vested shares	(188,658)	(1,727,040)	(126,723)	(18,203)
Cash contributed by non-controlling interest holder of Muhua Shangce	—	—	5,000,000	718,205
Cash received from short-term loans	—	15,000,000	—	—
Repayment of short-term loans	(3,449,650)	(15,000,000)	(9,000,000)	(1,292,769)
Principal payments on capital lease obligations	(811,830)	(2,988,587)	—	—
Cash received upon private placement	—	—	61,693,192	8,861,673
Cash received for exercise of share options	—	1,433,441	—	—
Special cash dividend (Note 20)	(65,698,571)	(946,611,803)	—	—
Net cash provided by (used in) financing activities	(70,148,709)	(949,893,989)	57,566,469	8,268,906

See accompanying notes to consolidated financial statements.

ATA CREATIVITY GLOBAL
Consolidated Statements of Cash Flows (Continued)

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31	
	2017 RMB	2018 RMB	2019 RMB	2019 USD
Effect of foreign exchange rate changes on cash	(1,210,072)	(4,720,020)	866,827	124,512
Net increase (decrease) in cash, cash equivalents and restricted cash	3,642,529	(65,504,600)	(36,388,584)	(5,226,893)
Cash, cash equivalents and restricted cash at beginning of period	252,448,413	256,090,942	190,586,342	27,376,015
Cash, cash equivalents and restricted cash at end of period	256,090,942	190,586,342	154,197,758	22,149,122
<i>Supplemental disclosures of cash flow information:</i>				
Cash paid for income tax	13,189,525	232,402,067	209,697	30,121
Cash refunded for income tax	(189,691)	—	—	—
Cash paid for interest expenses	57,367	249,683	231,722	33,285
<i>Non-cash investing and financing activities:</i>				
Acquisition of property and equipment by capital lease	1,323,527	—	—	—
Issuance of common shares as the consideration of Huanquiuyimeng Acquisition	—	—	76,868,663	11,041,493
Consideration payable for business acquisition	—	—	19,642,082	2,821,409

See accompanying notes to consolidated financial statements.

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

Description of Business and Organization

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

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

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

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

VIE Agreements

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

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

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

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

The key terms of these VIE Agreements are as follows:

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

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

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

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

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

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

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

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

ATA CREATIVITY GLOBAL
Notes to the Consolidated Financial Statements (Continued)

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

The equity interests of ATA Intelligent Learning are legally held by Mr. Ma and Mr. Xiong as nominee shareholders on behalf of ACG. Mr. Ma is chairman of the board and director of ACG and Mr. Xiong is general counsel of ACG. Mr. Ma holds over 50% of the total ordinary shares issued and outstanding as of December 31, 2019. The Company cannot assure that when conflicts of interest arise, either the nominee shareholders will act in the best interests of the Company or such conflicts will be resolved in the Company's favour. Currently, the Company does not have any arrangements to address potential conflicts of interest between the nominee shareholders and the Company, except that ATA Education could exercise the purchase option under the exclusive option agreement with the nominee shareholders to request them to transfer all of their equity ownership in ATA Intelligent Learning to a PRC entity or individual designated by ATA Education. The Company relies on the nominee shareholders, who are ACG's director and general counsel and who owe fiduciary duties to ACG, to comply with the terms and conditions of the contractual arrangements. Such fiduciary duty requires the nominee shareholders to act in good faith and in the best interests of ACG and not to use their positions for personal gains. If the Company cannot resolve any conflict of interest or dispute between the Company and the nominee shareholders of ATA Intelligent Learning, the Company would have to rely on legal proceedings, which could result in disruption of the Company's business and subject the Company to substantial uncertainty as to the outcome of any such legal proceedings.

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

The following financial statement amounts and balances of ATA Intelligent Learning were included in the accompanying consolidated financial statements of the Company as of and for the years ended December 31, 2018 and 2019.

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2019</u>
	<u>RMB</u>	<u>RMB</u>
Cash	25,369,355	435,122
Prepaid expenses and other current assets	32,860	4,180
Total current assets	25,402,215	439,302
Long-term investments (i)	5,919,198	89,605,550
Property and equipment, net	8,382	11,972
Other non-current assets	—	2,590
Total assets	31,329,795	90,059,414
Accrued expenses and other payables	455,577	—
Payable for business acquisition	—	19,642,082
Amounts due to a related party (ii)	28,000,000	42,000,000
Total current liabilities	28,455,577	61,642,082
Total liabilities	28,455,577	61,642,082
	<u>Year ended</u> <u>December 31,</u> <u>2018</u>	<u>Year ended</u> <u>December 31,</u> <u>2019</u>
	<u>RMB</u>	<u>RMB</u>
Net revenues	—	—
Net loss	(7,125,782)	(14,456,886)
	<u>Year ended</u> <u>December 31,</u> <u>2018</u>	<u>Year ended</u> <u>December 31,</u> <u>2019</u>
	<u>RMB</u>	<u>RMB</u>
Net cash used in operating activities	(172,145)	(1,441,360)
Net cash used in investing activities (iii)	(12,458,500)	(77,492,873)
Net cash received from financing activities (iii)	38,000,000	54,000,000

- (i) Long-term investments as of December 31, 2019 include investment cost and share of loss of 30.96% equity interest investment in Huanqiyimeng, which is eliminated on consolidation.

- (ii) Amounts due to a related party represent the amount due to ATA Education, which are eliminated on consolidation.
- (iii) For the year ended December 31, 2018, RMB 12,450,000 of net cash used in investing activities and RMB 38,000,000 of net cash received from financing activities were related to the transactions with ACG subsidiaries, which are eliminated on consolidation. For the year ended December 31, 2019, RMB 54,000,000 of net cash received from financing activities were related to the transactions with ACG subsidiaries, which are eliminated on consolidation. In addition, RMB71,483,973 of net cash used in investing activities were related to payments made for Huanquiyimeng Acquisition.

In accordance with the VIE Agreements, the Company has the power to direct the activities of ATA Intelligent Learning and can have assets transferred out of ATA Intelligent Learning. Therefore, the Company considers that there are no assets in ATA Intelligent Learning that can be used only to settle obligations of ATA Intelligent Learning, except for the registered capital amounting RMB 50.0 million as of December 31, 2019. None of the assets of ATA Intelligent Learning has been pledged or collateralized. The creditors of ATA Intelligent Learning do not have recourse to the general credit of ATA Education or the Company.

Significant Concentrations and Risks

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

Concentration of cash and cash equivalents balances held at financial institutions

Cash and cash equivalents consist of cash on hand and cash at bank. Cash at bank are deposited in financial institutions at below locations:

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2019</u>
	<u>RMB</u>	<u>RMB</u>
Financial institutions in the mainland of the PRC		
— Denominated in Renminbi (“RMB”)	143,760,647	47,224,436
— Denominated in U.S. Dollar (“USD”)	34	12,292,950
Total cash balances held at mainland PRC financial institutions	143,760,681	59,517,386
Financial institutions in Hong Kong Special Administrative Region (“HKSAR”) of the PRC		
— Denominated in RMB	672	—
— Denominated in Hong Kong Dollar (“HKD”)	8,064,121	2,875,819
— Denominated in USD	38,358,069	91,793,594
— Denominated in Great Britain Pound	402,799	2
Total cash and cash equivalents balances held at HKSAR financial institutions	46,825,661	94,669,415
Total cash and cash equivalents balances held at financial institutions	190,586,342	154,186,801

The bank deposits with financial institutions in the PRC are insured by the government authority up to RMB 500,000. The bank deposits with financial institutions in the HKSAR are insured by the government authority up to HKD 500,000. To limit exposure to credit risk, the Company primarily places bank deposits with large financial institutions in the PRC and HKSAR with acceptable credit rating.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, in which ACG, directly or indirectly, has a controlling financial interest and its variable interest entity, or VIE for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

Non-redeemable non-controlling interests are separately presented as a component of equity in the consolidated financial statements.

(b) Basis of presentation

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

On June 1, 2017, the Company declared a change in the fiscal year end from March 31 to December 31. As a result, the Group has presented the nine-month period ended December 31, 2017 as its transition period, which impacts the comparability of the Group’s results between the transition period and the full years ended December 31, 2018 and 2019.

Due to the ATA Online Sale Transaction, which represented a strategic shift and had a major effect on the Group's result of operations, revenues, costs and expenses related to ATA Online Business have been reclassified in the accompanying consolidated financial statements as discontinued operations for all the periods presented. See note 1 and note 26.

(c) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include the fair value determinations of identifiable assets acquired and liabilities assumed, the fair values of share-based payments and available-for-sale investment, the collectability of loan receivable and other receivables, the realizability of deferred income tax assets, the estimate for useful lives and residual values of long-lived assets, the recoverability of long-lived assets, goodwill and long-term investments, determination of standalone selling prices of performance obligations, variable consideration and measurement of progress towards completion in revenue recognition. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(d) Foreign currency

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

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

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

Assets and liabilities of the Company, ATA BVI and Xing Wei are translated into RMB using the applicable exchange rate at each balance sheet date. Revenues and expenses are translated into RMB at average rates prevailing during the year. The resulting foreign currency translation adjustments are recognized as a separate component of accumulated other comprehensive loss within equity. Since RMB is not a fully convertible currency, all foreign exchange transactions involving RMB must take place either through the People's Bank of China (the "PBOC") or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC.

For the convenience of the readers, the 2019 RMB amounts included in the accompanying consolidated financial statements have been translated into USD at the rate of USD 1.00 = RMB 6.9618, the noon buying rate in New York cable transfers of RMB per USD as set forth in the H.10 weekly statistical release of Federal Reserve Board, as of December 31, 2019. No representation is made that the RMB amounts could have been, or could be, converted into USD at that rate or at any other rate on December 31, 2019.

(e) Commitments and contingencies

In the normal course of business, the Group is subject to contingencies, such as legal proceedings and claims that cover a wide range of matters. Liabilities for such contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed.

(f) Fair value measurements

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

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by management based on the best information available in the circumstances.

(g) Revenue recognition

The Group's revenue is primarily generated from portfolio training services, educational travel services, overseas study counseling services and other educational services through its network in China and abroad as a result of Huanqiyuimeng Acquisition on August 6, 2019. See Note 3. Prior to the consummation of the ATA Online Sale Transaction as described in Note 1, the Group primarily provided computer-based testing services and online education services, which have been classified and reported under discontinued operations for all the periods presented. See Note 26.

The Group's revenue is recognized net of Value Added Tax ("VAT"). VAT collected from customers, net of VAT paid for purchases, is recorded as a liability in the consolidated balance sheets until paid to the tax authorities.

Periods commencing January 1, 2018

Since the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606") on January 1, 2018, the Group recognizes revenues upon the satisfaction of its performance obligation (upon transfer of control of promised goods or services to customers) in an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services, excluding amounts collected on behalf of third parties (for example, value added taxes).

The transaction price includes variable consideration where the Company's performance may result in full or partial return of the service fees based on the final outcome of the performance targets. The Company estimates the transaction price at contract inception based on expected value method, which the Company believes to be better predict with the amount of consideration to which it will be entitled in the contract. In making the estimate of variable consideration, the Company applies judgments which are inherently subjective. This includes the assessment of the final outcome of the performance targets and its historical experience and performance. The amount of estimated variable consideration included in the transaction price is limited only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable condition is subsequently resolved. Management reviews these estimates on a regular basis. Any changes in these factors which affect the estimated variable consideration and revenue recognized are applied prospectively.

For each performance obligation satisfied over time, the Group recognizes revenue over time by measuring the progress toward complete satisfaction of that performance obligation. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group's contracts with customers also include promises to transfer multiple services. For these contracts, the Group accounts for individual performance obligations separately if they are capable of being distinct and distinct within the context of the contract. Determining whether products and services are considered distinct performance obligations may require significant judgment. Judgment is also required to determine the stand-alone selling price ("SSP") for each distinct performance obligation. In instances where SSP is not directly observable, such as when the Group does not sell the product or service separately, the Group determines the SSP using information that may include market conditions and other observable inputs. For these contracts with variable consideration, the Group determines that variable consideration is allocated according to the method as described above, because variable consideration is attributable to all of the performance obligations in a contract.

i) Portfolio training services

Portfolio training services primarily consist of one-on-one or small-group training at the training centers or online platform in which the teachers provide guidance to students to practice observational drawing or other forms of art work and finally compiles the selected pieces to form a portfolio.

Individual students select to enroll either in time-based program in which they can take a pre-determined number of hours of trainings or in a project-based program in which they are guided to complete a portfolio that usually consists of three to five art projects. Revenue is recognized over a period of time based on the number of training hours expended and total hours of training under the contract with the student since the individual student simultaneously receives and consumes the benefits of the portfolio training services as the Group performs. Under project-based programs, the number of hours of trainings required to complete a project is not pre-determined and varies depending on the background and requirements of individual students. The Group reassesses the total hours of training pursuant to each contract of project-based program with individual students on a quarterly basis. Any adjustments arising from the changes of estimated training hours are applied prospectively.

ii) Educational travel services

The Group provides educational travel services for individual students to bring them art-related experience by providing integration of both travel and study activities in each educational service contract according to the background of individual students. The Group accounts for the educational travel services as one performance obligation, as individual activities within a contract are not distinct within the context of the contract. The Group recognizes revenue over the educational travel service period as the students simultaneously receive and consume the benefits of these services throughout the service period on the basis of costs incurred to-date to the total estimated costs.

iii) Overseas study counselling services

The Group provides overseas study counselling services to students who intend to study abroad on the following aspects, including but not limited to, customized timetable for applicants, university and program selection, developing paperwork for applications, interview simulation and enrollment documents preparation.

The Group provides integration and customization of the promised services in each overseas study counselling service contract depending on the background and requirements of the students and aims to deliver a combined output for counseling service to cover both academic and practical aspects during the entire process of application. The promised services are highly interdependent and interrelated and are accounted as one performance obligation, as the promised services in a contract are not distinct within the context of the contract. Since the students simultaneously receive and consume the benefits of these services throughout the service period as the Group performs, the Group recognizes revenue over the counselling service period on the basis of costs incurred to-date to the total estimated costs.

iv) Other educational services

Other educational services mainly consist of language training services, junior art education services and in-school classes. Revenue is recognized when control of promised services are transferred to the customers in an amount of consideration to which the Group expects to be entitled to in exchange for those services.

v) K12 education assessment and other services

The Group derives revenues by providing the assessment reports for the test takers to customers. Revenues from education assessment services are recognized when the Group delivers the reports to customers, which is when the control over the report has been transferred to customers. Fees received in advance are recorded as deferred revenue when the Group has an obligation to transfer goods or services to a customer for which the Group has received consideration.

The Group derives content development revenue by designing test model and providing the developed content to customers. Revenues from content development are recognized when the Group delivers the developed content to customers, which is when the control over the content has been transferred to customers.

Revenues generated from ATA Online Business, which primarily include testing services and online education services have been classified and reported under discontinued operations for all the periods presented. See Note 26.

vi) Testing services

The Group derives revenues by providing testing services to the test takers for customers. Testing services revenues are recognized upon the completion of the exam by the test takers when the control over the service has been transferred to customers.

vii) Online education services

The Group provides an online platform for students to conduct continuing education. The platform entitles students to access online education services during a specified service period (the “subscription period”). The Group determines that the customer simultaneously receives and consumes benefits provided by the Group’s performance as the Group performs during the term of the contract. Service fees are initially recorded as deferred revenue and are recognized as revenue on a straight-line basis over the subscription period.

The Group adopted ASC 606, *Revenue from Contracts with Customers* from January 1, 2018. The Group has applied the modified retrospective method starting on January 1, 2018 and conducted a review and evaluation over all the contracts that are not completed on January 1, 2018 and concluded that there is nil impact on the retained earnings as of January 1, 2018 as a result of the adoption of new revenue guidance.

Results for reporting periods after January 1, 2018 are presented in accordance with the new revenue guidance, while prior period amounts are not adjusted and continue to be reported in accordance with ASC 605, *Revenue Recognition*.

For the nine months ended December 31, 2017, RMB 4,041,142 of rental income was recorded under net revenues. For the year ended December 31, 2018 and 2019, rental income of RMB 5,943,984 and RMB 1,580,270, after netting off relevant costs, was classified as “other operating income, net” as a result of the adoption of new revenue guidance ASC 606, effective January 1, 2018. Net revenues for the years ended December 31, 2018 and 2019 would have increased by RMB 5,943,984 and RMB 1,580,270 if the Group had not adopted ASC 606, *Revenue from Contracts with Customers*.

Periods prior to January 1, 2018

Prior to January 1, 2018, the Group’s revenues are principally derived from the provision of testing services and online education services. The Group recognizes revenues when all of the following have occurred:

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

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

i) Testing services

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

ii) Online education services

The Group provides an online platform for students to conduct continuing education. The platform entitles students to access online education services during a specified service period (the “subscription period”). Service fees are initially recorded as deferred revenue and are recognized as revenue on a straight-line basis over the subscription period.

iii) Other revenue

a) Licensing fees from authorized test centers

The Group receives a fixed fee for a perpetual license that provides authorized test centers the right to use the Group’s brand name and e-testing platform.

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

b) Test development services

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

c) Test administration products

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

d) Operating leases

The Group recognized the revenue from operating lease on a straight-line basis over the lease term.

(h) Contract cost

Sales commissions to sales personnel and third-party agents, and incentives to existing students for referred customers are accounted for as incremental cost of obtaining sales contracts from customers and are initially recognized as an amortizable asset in "other non-current assets. Contract cost assets are amortized on the basis consistent with the pattern of the transfer of services to which the assets relate and are included in "sales and marketing expenses" in the consolidated statements of comprehensive income (loss).

(i) Cost of revenues

Prior to the Huanqiyimeng Acquisition, cost of revenues consists primarily of content development costs, amortized expenses of education assessment caseware, payroll compensation, and other related costs, which are directly attributable to the rendering of various services. As a result of Huanqiyimeng Acquisition, cost of revenues primarily consist of (1) teaching fees, payroll compensation for teaching support and administrative employees, performance-linked bonuses paid to teachers, rental payments for training centers, as well as costs of course materials and teaching aids for portfolio training services, (2) payroll compensation, outsourcing service costs, lodging and transportation expenses, overseas expenses, and other related costs which are directly attributable to the provision of educational travel services and overseas study counselling services, and (3) teaching fees, payroll compensation, content development costs, and other related costs, which are directly attributable to the rendering of other educational services and K12 education assessment and other services.

(j) Research and development costs

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

i) Software developed for internal use

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

ii) Software developed for sale

Costs incurred internally in researching and developing a computer software product are charged to expense as research and development costs prior to technological feasibility being established for the product. Once technological feasibility is established, all computer software costs are capitalized until the product is available for general release to customers. Technological feasibility is established upon completion of all the activities that are necessary to substantiate that the computer software product can be produced in accordance with its design specifications, including functions, features, and technical performance requirements.

(k) Lease

The Group is a lessee in a number of non-cancellable operating leases, primarily for training center and office spaces.

Periods prior to January 1, 2019

Operating lease

The Group leases offices under non-cancellable operating leases. Leases with escalated rent provisions are recognized on a straight-line basis commencing with the beginning of the lease term. There is no contingent rent in the lease agreements. The lease terms range between 12 and 36 months.

Capital lease

On initial recognition, assets held under capital leases are recorded as property and equipment. At inception of the lease, capital leases are recorded at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Minimum lease payments under capital leases are apportioned between finance expense and reduction of the outstanding liability.

The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Periods commencing January 1, 2019

From January 1, 2019, the Group accounts for leases in accordance with ASC Topic 842 *Leases* (see Note 10). The Group determines if an arrangement is or contains a lease at contract inception. The Group recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date.

Key estimates and judgments include how the Group determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

- ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the Group cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the Group generally uses its incremental borrowing rate as the discount rate for the lease. The Group's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because the Group does not generally borrow on a collateralized basis, it uses the interest rate it pays on its non-collateralized borrowings as an input to deriving an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease term and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.
- The lease term for all of the Group's leases includes the non-cancellable period of the lease plus any additional periods covered by either the Group's option to extend (or not to terminate) the lease that the Group is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
- Lease payments included in the measurement of the lease liability comprise the following:
 - Fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties the Group would owe if the lease term assumes the Group to exercise a termination option);
 - Variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date;
 - Amounts expected to be payable under the Group-provided residual value guarantee; and
 - The exercise price of the Group's option to purchase the underlying asset if the Group is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost is recognized on a straight-line basis over the lease term.

Variable lease payments associated with the Group's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in the Group's consolidated statements of income in the same line item as expense arising from fixed lease payments for operating leases.

ROU assets for operating lease are periodically reduced by impairment losses. The Group uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize.

The Group monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the re-measurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

Operating lease ROU assets are presented as operating lease right of use assets on the consolidated balance sheet. The current portion of operating lease liabilities is included in lease liabilities-current and the long-term portion is presented separately as other non-current liabilities on the consolidated balance sheet.

The Group has elected not to recognize ROU assets and lease liabilities for short-term leases of training centers and offices that have a lease term of 12 months or less. The Group recognizes the lease payments associated with its short-term training centers and offices leases as an expense on a straight-line basis over the lease term.

As of December 31, 2019, the Company did not have any finance leases.

The Company adopted the new lease accounting standard since January 1, 2019, and elected to apply the transition provisions of the standard on the date of adoption. Accordingly, the Company didn't restate prior year comparative periods for the impact of the new lease accounting standard. The Company also elected the package of practical expedients permitted under the transition guidance within the new lease accounting standard, including: (1) the Group didn't reassess whether any expired or existing contracts are or contain leases; (2) the Group combined lease and non-lease components for facilities leases, which primarily relate to ancillary expenses such as common area maintenance charges and management fees of its operating leases. In addition, for leases with a term of 12 months or less, an election was made not to recognize lease assets and lease liabilities.

Upon the adoption of the new lease accounting standard ASC 842, the Company recognized right-of-use assets and lease liabilities of approximately RMB 3.5 million and RMB 3.0 million, respectively, at January 1, 2019, consisting primarily of operating leases relating to office space.

(l) Income taxes

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

A deferred tax liability is not recognized for the excess of the Company's financial statement carrying amount over the tax basis of its investment in a foreign subsidiary, if there exists specific plans for reinvestment of undistributed earnings of a subsidiary which demonstrates that remittance of the earnings will be postponed indefinitely.

The Group recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group's accounting policy is to accrue interest and penalties related to unrecognized tax benefits, if and when required, as interest expense and a component of general and administrative expenses, respectively in the consolidated statements of comprehensive income (loss).

(m) Share-based payment

The Group measures the cost of employee share options and non-vested shares based on the grant date fair value of the award and recognizes that cost over the period during which an employee is required to provide services in exchange for the award, which generally is the vesting period. For the graded vesting share options and non-vested shares, the Company recognizes the compensation cost over the requisite service period for each separately vesting portion of the award as if the award is, in substance, multiple awards. When no future services are required to be performed by the employee in exchange for an award of equity instruments, and if such award does not contain a performance or market condition, the cost of the award is expensed on the grant date. Awards granted to employees with performance conditions are measured at fair value on the grant date and are recognized as compensation expenses in the period and thereafter when the performance goal becomes probable to achieve.

When there is a modification of the terms and conditions of an award of equity instruments, the Group calculates the incremental compensation cost of a modification as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the Group recognizes incremental compensation cost in the period the modification occurred. For unvested options, the Group recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. Cancellations in the vesting period are treated as an acceleration of vesting, and recognized immediately for the amount that would otherwise have been recognized for services over the vesting period.

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

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks and highly liquid investments with original maturity less than three months and readily convertible to known amount of cash.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows - Restricted cash*. This ASU requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The amendments in this ASU should be applied using a retrospective transition method to each period presented. The Group adopted the new standards starting from January 1, 2018 and applied a retrospective transition method to each period presented. As a result of adoption, the Group has included RMB 30,000,000 of restricted cash in the end-of-period cash and cash equivalents balance on the consolidated statement of cash flows for the nine-month period ended December 31, 2017 and the consolidated statement of cash flows was retrospectively adjusted by excluding the decrease of restricted cash of RMB 30,000,000 from cash flows from financing activities for the nine months ended December 31, 2017.

(o) Accounts receivable

Accounts receivable are recognized at invoiced amounts, less an allowance for uncollectible accounts, if any.

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

(p) Long-term investments

Equity method investments

The Group applies the equity method to account for an equity interest in an investee over which the Group has significant influence but does not own a majority equity interest or otherwise control.

Under the equity method of accounting, the Group's share of the investee's results of operations is reported as share of income (losses) of equity method investments in the consolidated statements of comprehensive income (loss).

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

Other equity investments

Prior to January 1, 2018, the Group accounted for other equity investments without a readily determinable fair value using the cost method. In connection with the adoption of ASC321 *Investment—Equity securities* as of January 1, 2018, the Group have elected to measure such investments at cost, adjusted for changes resulting from impairments and observable price changes in orderly transactions for identical or similar securities of the same issuer. The Group considers information in periodic financial statements and other documentation provided by the investees to determine whether observable price changes have occurred.

The Group makes a qualitative assessment considering impairment indicators to evaluate whether the equity investments without a readily determinable fair value is impaired at each reporting period, and write down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value. If an equity security without a readily determinable fair value is impaired, the Group includes an impairment loss in net income equal to the difference between the fair value of the investment and its carrying amount.

Available-for-sale investment

The Group's investment in convertible notes are classified as available-for-sale investments which are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income. An impairment loss on the available-for-sale investment is recognized in profit and loss when the decline in value is determined to be other than temporary.

(q) *Property and equipment, net*

Property and equipment is stated at historical cost.

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

Building	30 years
Computer equipment	3 to 5 years
Furniture, fixtures and office equipment	5 years
Software	3 to 5 years
Motor vehicles	5 years
Leasehold improvements	The shorter of lease terms and estimated useful lives

Ordinary maintenance and repairs are charged to expenses as incurred, while replacements and betterments are capitalized. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value of the item disposed and proceeds realized thereon.

(r) *Intangible assets*

Intangible assets mainly consist of externally purchase text content and software platform and acquired intangible assets resulting from the acquisitions of entities accounted for using the acquisition method of accounting, which are estimated by management based on the fair value of assets acquired at the acquisition date. Intangible assets are amortized on a straight-line basis over their respective estimated useful lives, which range from 1.4 to 10 years.

The Group has no intangible assets with indefinite useful lives.

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

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

(t) **Goodwill**

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired in a business combination. Goodwill is reviewed for impairment at least annually based on the Group's reporting units, which are defined as reportable segments or groupings of businesses one level below the reportable segment level. The Group performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required.

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

Annual impairment review over goodwill was performed at March 31 before the change of fiscal year end and was performed at December 31 after the change of fiscal year end, and when a triggering event occurs between annual impairment tests.

(u) **Employee benefit plans**

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

Employee benefit expenses recognized under these plans for nine months ended December 31, 2017, the years ended December 31, 2018 and 2019 are allocated to the following expense items:

	Nine months ended December 31 2017 RMB	Twelve months ended December 31 2018 RMB	Twelve months ended December 31 2019 RMB
Cost of revenues	78,381	79,280	2,363,553
Research and development	2,296,392	3,232,457	2,468,898
Sales and marketing	334,628	771,479	2,077,128
General and administrative	810,713	1,530,096	3,301,256
Total expense due to employee benefit plans	3,520,114	5,613,312	10,210,835

(v) Earnings per share

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

Diluted earnings per share is calculated by dividing net earnings adjusted for the effect of dilutive common equivalent shares, if any, by the weighted average number of common and dilutive common equivalent shares outstanding during the year. Common equivalent shares consist of common shares issuable upon the exercise of outstanding share options (using the treasury stock method). Common equivalent shares in the diluted earnings per share computation are excluded to the effect that they would be anti-dilutive.

The Group uses income (loss) from continuing operations as the control number in determining whether the potential common shares are dilutive or anti-dilutive.

(w) Segment reporting

The Group's chief operating decision maker has been identified as the Chief Executive Officer who reviews financial information of operating segments based on US GAAP amounts when making decisions about allocating resources and assessing performance of the Group. The Group uses the management approach in determining operating segments. The management approach considers the internal reporting used by the chief operating decision maker for making operating decisions about the allocation of resources and the assessment of its performance in determining the Group's operating segments. As a result of the Huanquiyimeng Acquisition as described in Note 1, the Group classified the operating segments for the year ended December 31, 2019 into (i) Overseas art study services (ii) Other educational services and (iii) K12 education assessment and other services. The Group had one operating segment which included K12 education assessment and other services for the nine months ended December 31, 2017 and for the year ended December 31, 2018. Substantially all of the Group's operations, customers and long-lived assets are located in the PRC. Consequently, no geographic information is presented.

(x) Discontinued operations

When a component of the Group's business is sold or expected to be sold during the year, the Group considers whether the criteria of ASC 205-20, *Discontinued Operations*, has been met, which includes evaluating if the disposal of a component represents a strategic shift that has, or will have, a major effect on the Group.

When a discontinued operation is disposed of before being classified as held for sale, the Company presents the assets and liabilities of the discontinued operation separately from other assets and liabilities on the consolidated balance sheet before the period that includes the disposal.

(y) Business combination

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

(2) Recently issued accounting standards

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Under current guidance, goodwill impairment loss is measured by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill by following procedures that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under the new amendments, the goodwill impairment test compares the fair value of a reporting unit with its carrying amount and an impairment charge is measured as the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments are effective for annual and interim reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820); Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements. Certain disclosures required by this guidance must be applied on a retrospective basis and others on a prospective basis. The guidance will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the effect of the disclosure requirements of ASU 2018-13 on the Company's consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments ("ASU 2019-04")*. ASU 2019-04 includes the codification improvements resulting from the June 11, 2018 and November 1, 2018 Credit Losses Transition Resource Group (TRG) Meetings and the codification improvements to Update 2016-13 (Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments), etc. ASU 2019-04 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU on the Company's consolidated financial statements.

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

(3) BUSINESS ACQUISITION

Acquisition of Huanqiyimeng

In 2019, the Company entered into share purchase agreements with all of the selling shareholders of Huanqiyimeng to acquire 100% equity interests of Huanqiyimeng in exchange for 9,360,000 ordinary shares of the Company and RMB 91.1 million consideration in cash.

The control of Huanqiyimeng business transitioned to the Group on August 6, 2019. As of December 31, 2019, the consideration payable for business acquisition was RMB 19,642,082 and expected to be paid within one year.

The Company accounted for the acquisition of Huanqiyimeng under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. The Group determined the fair values of assets acquired and liabilities assumed for this acquisition with assistance of an independent appraiser. The goodwill resulting from the acquisition is primarily attributable to the assembled workforce and the outreaching training center network around China and abroad. The acquired goodwill is not deductible for tax purposes. A summary of identifiable assets acquired and liabilities assumed in connection with the acquisition is as follows

	RMB
Purchase consideration:	
Cash	91,126,055
Fair value of 9,360,000 ordinary shares	76,868,663
	167,994,718
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	36,785,802
Prepaid expenses and other current assets	26,333,563
Long-term investments	157,850
Property and equipment, net	8,505,683
Intangible assets	
Trademark	79,000,000
Non-compete arrangements	56,000,000
Order backlogs	4,000,000
Other non-current assets	881,926
Right-of-use assets	32,089,416
Deferred revenues	(163,400,000)
Short-term loan	(13,991,000)
Lease liabilities-current	(18,728,346)
Deferred income tax liabilities	(45,659,880)
Accrued expense and other payables	(14,326,672)
Other non-current liabilities	(13,361,070)
Total identifiable assets acquired and liabilities assumed	(25,712,728)
Fair value of non-redeemable non-controlling interests in Huanqiyimeng	(6,771,349)
Goodwill	200,478,795

The intangible assets consist of trademark, non-compete arrangements and order backlogs. The fair values of trademark of RMB79,000,000, non-competition arrangements of RMB 56,000,000 and order backlogs of RMB 4,000,000 are amortized over 10 years, 6 years and 1.4 years, respectively on a straight-line basis.

The appraiser adopted relief from royalty method to estimate the fair value of trademark as at August 6, 2019. This approach is based on the assumption that, if an intangible asset has to be licensed from a third-party owner, a royalty rate on turnover will be charged for the privilege of using the asset. The significant inputs for the valuation model include, but not limited to, projected revenue, remaining useful life and discount rates.

The appraiser adopted with and without method to estimate the fair value of non-compete arrangements as at August 6, 2019. The fair value of non-compete arrangements were derived by comparing the discounted cash flow models under the income approach for the two scenarios – one is based on the scenario where the non-compete arrangements are in place and the other is where it is not in place. The significant inputs for the valuation model include, but not limited to, remaining useful life, financial forecasts for the scenario without non-compete arrangements in place, discount rate and probability of competition.

The appraiser adopted discounted cash flow method to estimate the fair value of deferred revenues as at August 6, 2019. The fair value of the deferred revenues was estimated based on the costs of fulfilling the obligations plus a normal profit margin. The significant inputs for the valuation model include, but not limited to, projected direct cost, savings on selling effort, profit margin and discount rate.

The appraiser adopted price-to-sales method to estimate fair value of the non-controlling interests as at August 6, 2019. The price-to-sales multiple is referred to the purchase consideration and the revenue of Huanqiyimeng. Considering the comparability of each entity with non-controlling interests, the appraiser adopted such multiple in deriving the non-controlling interests.

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As of the acquisition date, the goodwill acquired in the business combination was assigned to overseas art study services segment of RMB 176,046,647 and to other educational services segment of RMB 24,432,148 based on the excess of the fair value of each acquired reporting unit over the fair value of individual assets acquired and liabilities assumed that are assigned to each reporting unit.

The following summarized unaudited pro forma results of operations for the years ended December 31, 2018 and 2019 assuming that the acquisition of Huanqiyimeng occurred as of January 1, 2018. The unaudited pro forma financial information is supplemental information only and is not necessarily indicative of the results of operations which actually would have been had the acquisitions occurred as of January 1, 2018, nor is it indicative of future operating results.

	For the years ended December 31,	
	2018	2019
	RMB	RMB
	(Unaudited)	(Unaudited)
Pro forma net revenues	105,071,457	201,416,606
Pro forma net income (loss) attributable to ATA Creativity Global	757,139,789	(174,265,822)

The amounts of net revenues and net loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2019 is RMB 91,422,138 and RMB 24,291,035, respectively.

(4) PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31, 2018	December 31, 2019
	RMB	RMB
Amount due from Beijing Biztour	3,713,166	1,960,403
VAT-input deductible	2,675,486	1,893,650
Income tax refundable	—	2,800,622
Advances to employees	13,919	1,605,908
Other current assets	1,433,521	8,229,786
Total prepaid expenses and other current assets	7,836,092	16,490,369

Other current assets primarily consist of advances to suppliers for deposits, advertising fee and prepaid cost for educational travel services.

(5) LOAN RECEIVABLE, NET

On March 26, 2018, the Company entered into a framework agreement with the selling shareholders of Beijing Biztour International Travel Service Co., Ltd. (“Beijing Biztour”) in order to acquire Beijing Biztour. Pursuant to the framework agreement, the Company provided a one-year loan of US\$2 million at an annual interest rate of 8.0% to Beijing Biztour.

The Company had also advanced RMB 7.5 million to fund the operation of Beijing Biztour from August 2018. On March 6, 2019, The Company terminated the acquisition of Beijing Biztour because Beijing Biztour and the selling shareholders of Beijing Biztour did not satisfy certain closing conditions for such acquisition.

The loan receivable became overdue on April 6, 2019. On April 30, 2019, the due dates of loan receivable and other receivables due from Beijing Biztour were extended to September 30, 2019. The controlling shareholder of Beijing Biztour made a personal guarantee and agreed with certain real estate property mortgage. The loan receivable and other receivables due from Beijing Biztour became overdue again since October 1, 2019. Management assessed the collectability of loan receivable and other receivables due from Beijing Biztour and used the fair value of real estate adjusted by the estimated costs to sell to measure impairment and recorded a provision of RMB 17.4 million for the year ended December 31, 2019.

(6) LONG-TERM INVESTMENTS

Equity method investments

In September 2015, ATA BVI entered into an agreement to purchase 2,156,721 Series AA Preferred Shares issued by Brilent Inc. ("Brilent") at a price of \$0.6955 per Series AA Preferred Shares with a total consideration of USD 1.5 million. Brilent is a service provider with an easy to use SaaS (Software as a Service) based in the United States. ATA BVI held 15.47% equity interest of Brilent and one board seat out of six. The investment is accounted for under the equity method as ATA BVI is able to exercise significant influence through its board seat. The Company recognized its share of loss from this equity investment of RMB 1,395,234, nil and RMB nil for nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019, respectively.

Management evaluated whether there was other than temporary impairment based on the facts, including recent financing activities, projected and historical financial performance. Brilent encountered severe shortage of working capital resulted from continuous negative operating cash flows and turnover of key personnel in the fourth quarter of 2017. Management considered there was other than temporary impairment for the investments in Brilent and recognized the impairment loss of RMB 4,757,972 for the nine-month period ended December 31, 2017 to reduce the investment to zero, therefore, the investment balance in Brilent was nil as of December 31, 2018 and 2019.

Other equity investments

	December 31, 2018	December 31, 2019
	RMB	RMB
Beijing Empower Education Online Co., Ltd.	38,000,000	38,000,000
ApplySquare Education & Technology Co., Ltd.	22,471,700	1,576,391
Beijing GlobalWisdom Information Technology Co., Ltd.	5,919,198	—
Beijing Xiaozhi Education & Technology Co., Ltd.	—	6,000,000
Beijing Futou Technology Co., Ltd.	—	150,000
Total other equity investments	66,390,898	45,726,391

During the year ended March 31, 2017, the Group entered into shares purchase agreements to acquire 8.33% equity interest of Beijing Empower Education Online Co., Ltd. ("EEO"), 9% equity interest of ApplySquare Education & Technology Co., Ltd ("ApplySquare"), and 8.2% equity interest of Beijing GlobalWisdom Information Technology Co., Ltd. ("GlobalWisdom"), by paying cash consideration of RMB 32,500,000, USD 3,000,000 (equivalent to RMB 19,721,700), and RMB 12,300,000 respectively. ACG accounted for these investments as other equity investments using the cost method of accounting prior to January 1, 2018 in accordance with ASC325, *Investments—Others*, since these investments are not in-substance common stock due to the liquidation preference feature, and do not have readily determinable fair value.

In April 2017, ACG entered into a capital increase agreement to make an additional investment of RMB 5,500,000 in EEO. The consideration has been paid to EEO in June 2017. After this additional investment, ACG invested a total of RMB 38,000,000 in EEO, and accounted for the investment under cost method in accordance with ASC325, *Investments—Others* as of December 31, 2017, since the investment is not in-substance common stock due to the liquidation preference feature, and does not have readily determinable fair value.

On July 26, 2017, GlobalWisdom entered into a new financing agreement with new investors. After GlobalWisdom's new financing, ACG's equity shares decreased to 6.8345% and ACG still has the right to appoint one director. Because these investment terms contain substantive liquidation preference over common stock that are not available to common shareholders, these investments are not substantially similar to common stock and ACG accounted for the investment under cost method in accordance with ASC325, *Investments—Others* as of December 31, 2017.

In connection with adoption of ASC321 *Investment—Equity securities* effective January 1, 2018, the Group elected to measure other equity investments without readily determinable fair value at cost adjusted for changes resulting from impairments, if any, and observable price changes in orderly transactions for the identical or similar securities of the same issuer.

On June 20, 2018, ApplySquare entered into a new financing agreement with a group of new investors. After Applysquare's new financing, ACG's equity shares decreased from 9% to 7.95% and ACG still has the right to appoint one director. The new financing provided the observable price for ACG's investment and ACG engaged a third party appraiser to evaluate this investment's carrying amount based on the observable price, and recognized a gain of RMB 2,750,000 from the change in fair value. ACG accounts for the investment in ApplySquare at cost adjusted for observable price changes for the year ended December 31, 2018. As of December 31, 2019, ACG made a qualitative assessment and identified that Applysquare failed to meet the expected milestones and operation forecasts and encountered shortage of working capital resulted from continuous negative operating cash flows, which indicates that impairment exists. ACG engaged a third-party appraiser to evaluate the fair value of the investment in Applysquare as of December 31, 2019 and recorded an impairment loss of RMB 20,895,309 based on the valuation result.

ACG did not identify any observable price changes requiring an adjustment to the investment in EEO for the year ended December 31, 2018 and 2019.

As of December 31, 2018, ACG made a qualitative assessment and identified that GlobalWisdom failed to meet the expected milestones and operation forecasts and encountered shortage of working capital resulted from continuous negative operating cash flows, which indicates that impairment exists. ACG engaged a third-party appraiser to evaluate the fair value of the investment in GlobalWisdom as of December 31, 2018 and recorded an impairment of RMB 6,380,802 based on the valuation result. Due to its severe shortage of working capital and negative market impact on its business in the third quarter of 2019, the Group recognized the impairment loss of RMB 5,919,198 to reduce the investment to zero.

In December 2018, ACG entered into shares purchase agreement to acquire 20% equity interest of Beijing Xiaozhi Education Technology Co., Ltd. (“Xiaozhi”) in exchange for RMB 6,000,000 in cash. According to the shares purchase agreement, ACG has the right to appoint one director. The Company paid RMB 6,000,000 in cash to Xiaozhi in January 2019. The Group accounted for investment in Xiaozhi as other equity investments since these investments are not in-substance common stock due to the liquidation preference feature, and do not have readily determinable fair value. The Group elected to measure other equity investments without a readily determinable fair value at cost adjusted for changes resulting from impairments, if any, and observable price changes in orderly transactions for the identical or similar securities of the same issuer.

Long-term investment in Beijing Futou Technology Co., Ltd (“Futou Technology”) was acquired in connection with the acquisition of Huanqiyimeng, which held 15% equity interests in Futou Technology. ACG did not identify any observable price changes requiring an adjustment to the investment in Futou Technology for the year ended December 31, 2019.

Available-for-sale investment

On March 24, 2016, ATA BVI entered into a convertible promissory note (“the Notes”) purchase agreement with Brilent pursuant to which Brilent will issue up to USD 2,500,000 of the Notes to certain investors including ATA BVI. On March 30, 2016 and April 28, 2016, Brilent issued the Notes to ATA BVI in the principal amount of USD 300,000 and USD 1,200,000 at a 6% interest rate per annum, in exchange for cash of USD 1,500,000. The Notes are due and redeemable 24 months from issuance. If a qualified financing occurs on or prior to the maturity date of the Notes, the Notes and all accrued and unpaid interest thereon shall convert, at ATA BVI’s option, into qualified financing securities at 75% of the qualified financing security purchase price subject to certain adjustment.

For the year ended March 31, 2017, RMB 568,320 was recognized as interest income in consolidated statements of comprehensive income (loss). The investment is classified as available-for-sale investment and is measured at fair value as of the balance sheet date. Unrealized holding loss of RMB 553,870 was reported in other comprehensive income (loss) for the year ended March 31, 2017. The Company determined the fair value of the Notes as of March 31, 2017 to be USD 1,504,000 (RMB 10,376,547). As a result of recent development of Brilent Inc., management considered that there was other than temporary impairment of this investment and recorded an impairment loss of the Notes of USD 1,504,000 (RMB 10,458,538) as of December 31, 2017. The unrealized loss of the Notes of RMB 553,870 has been reclassified to profit and loss correspondingly. Due to the above impairment recognized in the nine months ended December 31, 2017, the net book value of this investment is nil as of December 31, 2018 and 2019.

(7) FAIR VALUE MEASUREMENT

The following table presents a roll-forward of the fair value of Level 3 available-for-sale investment for nine months ended December 31, 2017 and the years ended December 31, 2018 and 2019, respectively:

	Available-for-sale investment
	RMB
Ending balance as of March 31, 2017	10,376,547
Total gain or losses:	
Included in net income	(10,458,538)
Reclassification adjustment for loss on available-for-sale investment included in net income, net of nil income tax	553,870
Foreign currency translation adjustment	(471,879)
Ending balance as of December 31, 2017, 2018 and 2019	—

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The following tables present the placement in the fair value hierarchy of assets that are measured at fair value on a non-recurring basis at December 31, 2018 and 2019:

	December 31, 2018	Fair value disclosure or measurement at December 31, 2018 using		
		Level 1	Level 2	Level 3
		RMB	RMB	RMB
Other equity investments				
ApplySquare Education & Technology Co., Ltd.	22,471,700	—	—	22,471,700
Beijing GlobalWisdom Information Technology Co., Ltd.	5,919,198	—	—	5,919,198

	December 31, 2019	Fair value disclosure or measurement at December 31, 2019 using		
		Level 1	Level 2	Level 3
		RMB	RMB	RMB
Other equity investments				
ApplySquare Education & Technology Co., Ltd.	1,576,391	—	—	1,576,391
Beijing GlobalWisdom Information Technology Co., Ltd.	—	—	—	—

The other equity investments without readily determinable fair value are recorded at fair value only if an impairment or observable price adjustment is recognized in the current period. If an impairment or observable price adjustment is recognized on the equity securities during the period, the Company will classify these assets as Level 3 within the fair value hierarchy based on the nature of the fair value inputs.

ApplySquare entered into a new financing agreement with a group of new investors in 2018, which provided the observable price for ACG's investment and the fair value adjustments are determined primarily based on the market approach as of the transaction date. As a result, the Group recognized a gain of RMB 2,750,000 from the change in fair value for the year ended December 31, 2018.

To estimate the fair value of investment in Applysquare as of December 31, 2019, the Group used Discounted Cash Flow Model ("DCF Model"), which is based on the fair value of the entire invested capital of Applysquare using an income approach. The significant inputs for the valuation model include, but not limited to, future cash flows, discount rate, and the comparable selection set of companies operating in similar businesses. As a result, the Group recorded an impairment loss of RMB 20,895,309 for the year ended December 31, 2019.

To estimate the fair value of investment in GlobalWisdom, the Group used Discounted Cash Flow Model ("DCF Model"), which is based on the fair value of the entire invested capital of GlobalWisdom using an income approach. The significant inputs for the valuation model include, but not limited to, future cash flows, discount rate, and the comparable selection set of companies operating in similar businesses. As a result, the Group recorded impairment losses of RMB 6,380,802 for the year ended December 31, 2018 and RMB 5,919,198 for the year ended December 31, 2019.

The Group did not have any non-financial assets and liabilities that are measured at fair value on a non-recurring basis as of December 31, 2018 and December 31, 2019, respectively.

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, advances to third parties, employees and suppliers, which are included in the prepaid expenses and other current assets, loan receivable, subscription receivable, accrued expenses and other payables and short-term loans, all of which have a carrying amount that approximate fair value because of the short maturity of these instruments.

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

Property and equipment, net consist of the following:

	December 31, 2018	December 31, 2019
	RMB	RMB
Building	53,049,213	53,049,213
Computer equipment	599,992	3,491,575
Furniture, fixtures and office equipment	1,437,949	1,890,013
Motor vehicles	1,986,506	1,986,506
Software	1,156,779	1,797,197
Leasehold improvements	695,185	14,419,590
	<u>58,925,624</u>	<u>76,634,094</u>
Less: accumulated depreciation and amortization	(21,494,883)	(34,563,300)
Property and equipment, net	<u>37,430,741</u>	<u>42,070,794</u>

Total depreciation expense recognized for nine months ended December 31, 2017, the years ended December 31, 2018 and 2019 is allocated to the following expense items:

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31
	2017	2018	2019
	RMB	RMB	RMB
Cost of revenues	1,384,157	3,802	28,389
Research and development	641,793	640,372	226,173
Sales and marketing	111,226	122,199	35,343
General and administrative	626,395	417,295	4,491,492
Other operating income, net	—	1,782,454	369,048
Total depreciation expense	<u>2,763,571</u>	<u>2,966,122</u>	<u>5,150,445</u>

(9) **GOODWILL AND INTANGIBLE ASSETS, NET**

(a) *Goodwill*

Goodwill balance before the ATA Online Sale Transaction consisted of RMB 6,880,123 recognized from the acquisition of 5% equity shares of ATA Education in 2002, RMB 16,542,727 recognized from the acquisition of Beijing Jindixin Software Technology Company Limited (“Beijing JDX”) and JDX Holdings Limited (“JDX BVI”) in February 2009, RMB 7,589,052 recognized from the acquisition of Xing Wei in November 2013 and RMB 997,123 recognized from the acquisition of Beijing Qihuang Huizhi Technology Co., Limited (“Qihuang Huizhi”), majority owned subsidiary of ATA Online acquired in December 2017. The above goodwill represents the benefits and synergies that the acquired businesses are expected to bring to the Company in relation to the computer-based testing services and expand the Company’s customer base and product offering of testing services.

In December 2017, ATA Online acquired 65% equity interest in Qihuang Huizhi, with a total consideration of RMB 650,000, which was fully paid on December 13, 2017. This acquisition was accounted for under the acquisition method and the excess of cost of acquisition and fair value of the non-controlling interests over the fair value of the identifiable net assets of Qihuang Huizhi, is recorded as goodwill of RMB 997,123.

In December 2017, the Company sold the entire 60% equity interest in Beijing Puhua Huitong Education Technology Co., Limited (“Puhua Technology”) for RMB 2,000,000 in cash, and the goodwill of RMB 1,512,081 recognized from the acquisition of Puhua Technology has been disposed correspondingly.

ACG acquired 100% equity interests of Huanqiyimeng and its subsidiaries in the year of 2019. This acquisition was accounted for under the acquisition method of accounting and the excess of fair values of the consideration and non-controlling interests over the fair value of the identifiable net assets of Huanqiyimeng is recorded as goodwill of RMB 200,478,795.

The change in the carrying amount of goodwill is as follows:

	RMB
Balance as of December 31, 2017	32,009,025
Less: Disposal of discontinued operations (Note 26)	(32,009,025)
Balance as of December 31, 2018	—
Add: Acquisition of Huanqiuyimeng	200,478,795
Balance as of December 31, 2019	200,478,795

(b) *Intangible assets*

The following table summarizes the Company's intangible assets, as of December 31, 2018 and 2019.

	December 31, 2018				
	Gross carrying amount	Accumulated amortization /deduction	Impairment	Net carrying amount	Weighted average amortization period
	RMB	RMB	RMB	RMB	Years
	RMB	RMB	RMB	RMB	Years
Education assessment caseware (i)	9,251,887	(2,430,708)	—	6,821,179	5
Software platform of Project Shuang Chuang (ii)	10,844,339	(542,940)	—	10,301,399	5
Total intangible assets	20,096,226	(2,973,648)	—	17,122,578	

	December 31, 2019				
	Gross carrying amount	Accumulated amortization /deduction	Impairment	Net carrying amount	Weighted average amortization period
	RMB	RMB	RMB	RMB	Years
	RMB	RMB	RMB	RMB	Years
Trademark (iii)	79,000,000	(3,291,667)	—	75,708,333	10
Non-compete arrangements (iii)	56,000,000	(3,888,889)	—	52,111,111	6
Order backlogs (iii)	4,000,000	(1,190,476)	—	2,809,524	1.4
Education assessment caseware (i)	9,251,887	(4,281,085)	—	4,970,802	5
Software platform of Project Shuang Chuang (ii)	10,844,339	(2,716,145)	(8,128,194)	—	5
Total intangible assets	159,096,226	(15,368,262)	(8,128,194)	135,599,770	

Total amortization expense recognized for nine months ended December 31, 2017, the years ended December 31, 2018 and 2019 is allocated to the following expense items:

	Nine months ended	Twelve months ended	Twelve months ended
	December 31	December 31	December 31
	2017	2018	2019
	RMB	RMB	RMB
Cost of revenues	753,114	1,468,726	2,031,478
Sales and marketing	—	542,940	1,992,105
General and administrative	—	—	8,371,032
Total amortization expense	753,114	2,011,666	12,394,615

- (i) Education assessment caseware is the test content purchased for the Company's strategic K-12 academic assessment business, which includes three subjects of Literature, Mathematics and English over six grades of junior and senior high school.
- (ii) Software platform of Project Shuang Chuang is the software platform purchased from a third party for providing vocational assessment and training services that focuses on the innovation related competencies of college students.

As of December 31, 2019, the Company conducted impairment test on intangible assets and identified that no cash inflows nor feasibility use is anticipated from the intangible assets and other non-current assets recorded relating to the software platform developed under Project Shuang Chuang. As a result, RMB 8,932,439 of impairment loss relating to intangible assets and other non-current assets for software platform of Project Shuang Chuang was recognized for the year ended December 31, 2019. No impairment loss was recognized for the nine months ended December 31, 2017 and for the year ended December 31, 2018.

- (iii) Trademark, Non-compete arrangements and Order backlogs were recorded as a result of Huanquiyimeng Acquisition. See note 3 for details.

As of December 31, 2019, the estimated amortization expense for the next five years is as follows:

	December 31
	RMB
2020	21,893,234
2021	19,083,711
2022	18,121,730
2023	17,614,984
2024	17,233,333

(10) LEASES

The Company adopted new lease accounting standards ASC 842 since January 1, 2019. The primary leases that the Group entered into were for training center and office spaces.

Information as of and for the year ended December 31, 2019:

As of December 31, 2019, the Company has 61 operating leases for training center and office spaces with remaining terms expiring from 2 through 39 months and a weighted average remaining lease term of 1.67 years. Weighted average discount rates used in the calculation of the lease liability is 5.88%. The discount rates reflect the estimated incremental borrowing rate, which includes an assessment of the credit rating to determine the rate that the Company would have to pay to borrow, on a collateralized basis for a similar term, an amount equal to the lease payments in a similar economic environment.

Rent expense for the year ended December 31, 2019 was RMB13,903,991. There was no variable lease costs or sublease income for leased assets for the year ended December 31, 2019.

The impact of ASC 842 on the December 31, 2019 consolidated balance sheet was as follows:

	December 31,
	2019
	RMB
<i>Operating leases:</i>	
Right-of-use lease assets	40,786,291
Lease liabilities-current	20,556,017
Other non-current liabilities	12,500,120

Other information related to leases is presented below:

	December 31,
	2019
	RMB
<i>Supplemental cash flow information:</i>	
Cash paid for amounts included in measurement of operating leases liabilities	12,850,734
Right-of-use assets acquired in exchange for operating lease obligations	8,696,875
Right-of-use assets acquired in connection with Huanquiyimeng Acquisition	32,089,416
Weighted average remaining lease term	1.67
Weighted average discount rate	5.88%

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Maturities of lease liabilities under non-cancellable leases as of December 31, 2019 are as follows:

	<u>Operating leases</u>
	RMB
2020	21,869,242
2021	10,956,342
2022	2,601,561
2023	359,048
2024	—
Thereafter	—
Total undiscounted lease payments	35,786,193
Less: Imputed interest	(2,730,056)
Total lease liabilities	33,056,137
Amounts due within 12 months	20,556,017
Non-current lease liability	12,500,120

Short-term lease expense, with a lease term of 12 months or less, for the year ended December 31, 2019 was RMB 2,125,616 and short-term lease commitments as of December 31, 2019 are as follows:

	<u>Short-term Lease Commitments</u>
	Amount
	RMB
Year ended December 31:	
2020	1,506,677
	<u><u>1,506,677</u></u>

Information as of and for the year ended December 31, 2018:

As previously disclosed in the consolidated financial statements for the year ended December 31, 2018 and under the previous lease standards (ASC 840), future minimum annual lease payments for the years subsequent to December 31, 2018 and in aggregate are as follows:

	<u>Minimum</u>
	Lease Payments
	Amount
	RMB
Year ended December 31:	
2019	2,959,829
2020	346,745
2021	—
2022	—
2023	—
	<u><u>3,306,574</u></u>

Rental expense for operating leases for nine months ended December 31, 2017 and the year ended December 31, 2018 were RMB 4,772,679 and RMB 2,717,234 respectively.

(11) SHORT-TERM LOAN

In June 2018, the prior president and director of ACG, Jack Huang, entered into a three-year Commercial Loan Facility (the "Facility") with China Minsheng Bank Beijing Branch to borrow up to RMB 15,000,000 to support the working capital of ATA Education. The Facility is pledged by the real estate property of Gongyuan 16th floor owned by ATA Education, pursuant to which a corresponding three-year pledge agreement has been entered into between ATA Education and China Minsheng Bank Beijing Branch. Jack Huang and ATA Education also signed an agreement, pursuant to which all drawdowns received from China Minsheng Bank should be transferred to ATA Education and the interests of these drawdowns will be fully paid by ATA Education. ATA Education shall pay interest at 6.525% per annum on the commencement date for each drawdown. The interest rate is subject to potential adjustment based on premium interest rate stipulated by the People's Bank of China. In June and July 2018, ATA Education has received a total of RMB 15,000,000 drawdowns and this loan has been fully repaid on October 15, 2018. On April 12, 2019, the real estate property of Gongyuan 16th floor was released from pledge and the Facility was terminated correspondingly.

The Group assumed several bank borrowings in the amount of short-term loan balance of RMB 13,991,000 in connection with Huanquiyimeng Acquisition, among which RMB 9,000,000 was repaid during the period from August 6, 2019 to December 31, 2019. Interest expense of RMB 164,930 accrued from these bank borrowings was recognized for the same period in 2019. The outstanding short-term loan balance was RMB 4,991,000 as of December 31, 2019.

(12) ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consist of the following:

	December 31, 2018	December 31, 2019
	RMB	RMB
Refund liability*	—	8,919,239
Accrued payroll and welfare	8,934,828	22,821,689
Accrued test monitoring fees	2,432,153	2,432,153
Accrued professional services expenses	755,849	3,489,512
Income taxes payable	—	679,961
Other current liabilities	5,989,109	9,404,500
Total accrued expenses and other payables	18,111,939	47,747,054

Other current liabilities as of December 31, 2018 and 2019 mainly include lessees' rental deposits, accrued traveling, meeting and other operating expenses.

*Refund liability represents the estimated amount of refund if a student decides to withdraw from the Group's programs or services and is estimated based on historical experience.

(13) CHANGE IN FISCAL YEAR END

During the nine-month period ended December 31, 2017, the Group changed its fiscal year end to December 31, effective December 31, 2017.

The consolidated financial statements for the nine-month period ended December 31, 2017 is not comparable to that as of and for the twelve months ended December 31, 2018. For comparison purposes, the Group included the selected data from unaudited consolidated income statement for the twelve-month period ended December 31, 2017 per below:

	Twelve months ended December 31,	
	2017	2018
	RMB	RMB
Net revenues	7,389,371	1,338,592
Cost of revenues	4,957,647	4,251,451
Gross profit (loss)	2,431,724	(2,912,859)
Operating expenses	74,104,081	68,672,509
Other operating income, net	—	3,793,418
Loss from operations	(71,672,357)	(67,791,950)
Other loss, net	(16,427,003)	(261,524)
Loss from continuing operations before income taxes	(88,099,360)	(68,053,474)
Income tax benefit	(591,290)	—
Loss from continuing operations, net of income taxes	(87,508,070)	(68,053,474)
Income from discontinued operations, net of income taxes	61,431,845	918,654,979
Net income (loss)	(26,076,225)	850,601,505

(14) NET REVENUES

The components of net revenues for nine months ended December 31, 2017, the years ended December 31, 2018 and 2019, are as follows:

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31
	2017	2018	2019
	RMB	RMB	RMB
Portfolio training services	—	—	63,828,907
Educational travel services	—	—	10,456,269
Overseas study counselling services	—	—	8,091,551
Other educational services	—	—	9,045,411
K12 education assessment and other services	5,185,822	1,338,592	6,348,029
Net Revenues	5,185,822	1,338,592	97,770,167

K12 education assessment and other services revenues primarily include rental income and K-12 education assessment service revenues for nine-months ended December 31, 2017 and K12 education assessment services and content development services for reporting periods after January 1, 2018.

Deferred revenue is recorded when the Group has an obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. Part of the balances as of January 1, 2018 and 2019 were recognized as revenues during the years ended December 31, 2018 and 2019. In addition, changes in the deferred revenue balances during the year ended December 31, 2019 included RMB163,400,000 of deferred revenue acquired in connection with the Huanquiyimeng Acquisition. See Note 3.

(15) INCOME TAXES

Cayman Islands and British Virgin Islands

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

Hong Kong

Xing Wei did not derive any income that is subject to Hong Kong profits tax for the nine months ended December 31, 2017, the taxable years ended December 31, 2018 and 2019. Accordingly, no provision for Hong Kong profits tax was required. PRC income tax arising from disposal of investment in a prior subsidiary, Zhongxiao Zhixing, which was previously operating in PRC, was filed and paid during the taxable year ended December 31, 2018. The payment of dividends by Hong Kong companies is not subject to any Hong Kong withholding tax.

People's Republic of China

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

Under the Enterprise Income Tax Law ("EIT Law"), the statutory income tax rate is 25% effective from January 1, 2008. Entities that qualify as "high-and-new technology enterprises eligible for key support from the State" ("HNTE") are entitled to a preferential income tax rate of 15%. If an HNTE enterprise no longer satisfies the related accreditation criteria, its certificate will be cancelled and it will cease to be entitled to the related tax incentives.

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

In December 2008, ATA Education received approval from the tax authority that it qualified as an HNTE. The certificate entitled ATA Education to the preferential income tax rate of 15% effective retroactively from January 1, 2008 to December 31, 2010. In October 2011, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2011 to December 31, 2013. In October 2014, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2014 to December 31, 2016. In October 2017, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2017 to December 31, 2019. ATA Education is currently in the process of renewing their HNTE certificates for another three years. Upon successful renewal, ATA Education would be entitled to a preferential tax rate of 15% retroactively from January 1, 2020.

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In December 2009, Muhua Shangce received approvals from the tax authority that it qualified as an HNTE. The certificate entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2009 to December 31, 2011. In July 2012, Muhua Shangce received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2012 to December 31, 2014. In November 2015, Muhua Shangce received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2015 to December 31, 2017. In October 2018, Muhua Shangce received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2018 to December 31, 2020.

The EIT Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings generated beginning January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempt from withholding tax. As a result of the ATA Online Sale Transaction, the withholding tax of RMB 22.8 million accrued from ATA Online Business in the PRC has been recorded under discontinued operations. See note 26. As of December 31, 2018 and 2019, the Company has not provided for income taxes on earnings of RMB 71,323,502 and RMB 6,233,021 respectively, generated by its PRC consolidated entities, as the Company plans to reinvest these earnings indefinitely in the PRC. The unrecognized deferred income tax liability related to these earnings was RMB 7,132,350 and RMB 623,302, respectively as of December 31, 2018 and 2019.

Loss from continuing operations before income taxes were generated in the following jurisdictions:

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31
	2017	2018	2019
	RMB	RMB	RMB
Cayman Islands and British Virgin Islands	(39,725,254)	(29,296,296)	(23,094,955)
PRC	(35,150,223)	(39,680,573)	(118,145,074)
Hong Kong	(37,472)	923,395	(21,586)
Loss before continuing operations before income taxes	(74,912,949)	(68,053,474)	(141,261,615)

Income tax expense recognized in the consolidated statements of comprehensive income (loss) consists of the following:

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31
	2017	2018	2019
	RMB	RMB	RMB
PRC			
Current income tax expense	—	—	905,078
Deferred income tax benefit	(2,109,096)	—	(8,054,197)
Total income tax benefit	(2,109,096)	—	(7,149,119)

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The actual income tax expense (benefit) reported in the consolidated statements of comprehensive income (loss) differs from the respective amount computed by applying the PRC statutory income tax rate of 25% for each of nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019 to earnings before income taxes due to the following:

	Nine months ended December 31 2017 RMB	Twelve months ended December 31 2018 RMB	Twelve months ended December 31 2019 RMB
Computed “expected” income tax benefit	(18,728,237)	(17,013,369)	(35,315,404)
Increase (decrease) in valuation allowance	9,261,477	(14,570,083)	23,171,671
Entities not subject to income tax	8,244,168	4,896,732	4,576,771
<i>Non-deductible expenses</i>			
Entertainment	98,299	255,843	394,380
Share-based compensation	1,696,514	2,427,342	1,202,364
Bad debt loss	(96,683)	25,206	—
Additional deduction of research and development costs	(951,062)	(447,525)	(240,404)
Withholding tax related to undistributed earnings	(2,109,096)	—	—
Gain from discharge of intercompany payables (a)	—	25,594,493	—
Investment loss from sale of non-redeemable non-controlling interests (b)	—	(1,725,000)	—
Other	475,524	556,361	(938,497)
Actual income tax benefit	(2,109,096)	—	(7,149,119)

- (a) The gain from discharge of intercompany payables represents the gain recognized from the discharge of payables of ATA Education due to ATA Learning, Zhongxiao Zhixing and ATA BVI. These payables were waived in accordance with the terms agreed in the ATA Online Sale Transaction.
- (b) The investment loss from sale of non-redeemable non-controlling interests represents the investment loss recognized from the transfer of 24% equity shares of Muhua Shange to a limited partnership named Ningbo Meishan Bonded Port Area Zunming Investment Management Center (Limited Partnership) (“Limited Partnership”) from ATA Education for the year ended December 31, 2018. See note 16.

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

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

	December 31, 2018 RMB	December 31, 2019 RMB
Deferred income tax assets:		
Tax loss carry forwards	14,082,622	28,153,853
Impairment loss of long-term investments	4,132,700	10,148,827
Lease liability	—	8,264,034
Impairment loss of intangible assets and other non-current assets	—	2,233,110
Provision for other receivables	—	1,396,914
Accrued expenses and other payables	2,946,135	4,213,877
Property and equipment, net	551,634	702,523
Donation	250,000	2,768,750
Total gross deferred income tax assets	21,963,091	57,881,888
Less: valuation allowance	(21,275,591)	(44,713,570)
Total deferred income tax assets, net	687,500	13,168,318
Deferred income tax liabilities:		
Intangible assets	—	32,657,242
Right-of-use assets	—	10,196,572
Deferred revenues	—	7,091,422
Change in fair value of long-term investment	687,500	—
Total gross deferred income tax liabilities	687,500	49,945,236
Net deferred income tax assets	—	11,464,891
Net deferred income tax liabilities	—	48,241,809

The movements of the valuation allowance are as follows:

	Nine months ended December 31 2017 RMB	Twelve months ended December 31 2018 RMB	Twelve months ended December 31 2019 RMB
Balance at the beginning of the period	26,584,197	35,845,674	21,275,591
Additions	9,261,477	11,024,410	23,437,979
Reduction due to gain from discharge of intercompany payables	—	(25,594,493)	—
Balance at the end of the period	35,845,674	21,275,591	44,713,570

As of December 31, 2019, the valuation allowance of RMB 44,713,570 was related to the deferred income tax assets of PRC entities which were in loss position. As of December 31, 2019, management believes it is more likely than not that the Group will realize the deferred income tax assets, net of the valuation allowance.

As of December 31, 2019, the Group had tax loss carry forwards for PRC income tax purpose of RMB 112,615,412 of which RMB 82,264, RMB 5,770,566, RMB 13,051,292, RMB 1,593,134, RMB 10,761,200, RMB 24,885,644, RMB 14,047,874 and RMB 42,423,438 will expire if unused by December 31, 2022, 2023, 2024, 2025, 2026, 2027, 2028 and 2029, respectively.

For nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019, the Group had no unrecognized tax benefits, and thus no related interest and penalties were recorded. Also, the Group does not expect that the amount of unrecognized tax benefits will significantly increase within the next twelve months.

According to the PRC Tax Administration and Collection Law, the statute of limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation is extended to five years under special circumstances where the underpayment of taxes is more than RMB 100,000. In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. The income tax return of each of the Company's PRC consolidated entities is subject to examination by the relevant tax authorities for the calendar tax years beginning 2015.

(16) NON-CONTROLLING INTERESTS

(a) Redeemable non-controlling interests

In February 2017, two third-party investors (“the investors”) acquired 20% of the equity interest of Muhua Shangce at a consideration of RMB 34,000,000. The investors have the right to ask Muhua Shangce to purchase back part or all of the equity interest if Muhua Shangce does not achieve a qualified IPO within 6 years, as defined by the investment agreement, at the redemption price of RMB 34,000,000 plus 8% of interest for the period from February 2017 to the date of redemption. The redeemable non-controlling interest was recorded outside permanent equity as mezzanine equity- redeemable non-controlling interests in the consolidated balance sheets and initially recorded at the carrying value of RMB 34,000,000. The amount presented in redeemable non-controlling interest should be the greater of the non-controlling interest balance after attribution of net income or loss of the subsidiary and related dividends to the non-controlling interest or the amount of redemption value.

On September 26, 2019, Muhua Shangce entered into a new financing agreement with its redeemable non-controlling interests holder, Muhua Investment, and received cash of RMB 5,000,000 on September 29, 2019. After Muhua Shangce’s new financing, ACG’s equity shares decreased from 56% to 54.6% and ACG still has control of Muhua Shangce.

The investor who made this new investment, has the right to ask Muhua Shangce to purchase back up to 50% of the new equity interests if Muhua Shangce does not achieve a qualified IPO within 5 years, as defined by the investment agreement, at the redemption price of RMB 2,500,000 plus 8% of interest for the period from September 2019 to the date of redemption. The redeemable non-controlling interest was recorded outside permanent equity as mezzanine equity- redeemable non-controlling interests in the consolidated balance sheets and initially recorded at the carrying value of RMB 2,500,000. The amount presented in redeemable non-controlling interest should be the greater of the non-controlling interest balance after attribution of net income or loss of the subsidiary and related dividends to the non-controlling interest or the amount of redemption value.

	RMB
Balance as of April 1, 2017	—
Add: Capital contribution	34,000,000
Less: Comprehensive loss	(1,444,363)
Accretion of redeemable non-controlling interests	3,748,639
Balance as of December 31, 2017	36,304,276
Less: Comprehensive loss	(3,181,199)
Accretion of redeemable non-controlling interests	6,085,542
Balance as of December 31, 2018	39,208,619
Add: Capital contribution	2,500,000
Less: Comprehensive loss	(2,820,682)
Accretion of redeemable non-controlling interests	6,008,491
Balance as of December 31, 2019	44,896,428

(b) Non-redeemable non-controlling interests

On October 26, 2018, Board of Directors approved that 24% of the equity shares of Muhua Shangce was transferred to a limited partnership named Ningbo Meishan Bonded Port Area Zunming Investment Management Center (Limited Partnership) (“Limited Partnership”) from ATA Education at a consideration of RMB 1,500,000. The consideration has been fully paid to ATA Education by the Limited Partnership on December 26, 2018.

As a result of the new investment made in 2019 to Muhua Shangce as stated above, 50% of the new investment, amounting to RMB 2,500,000, which does not represent redeemable non-controlling interests, was recorded under non-redeemable non-controlling interests.

(17) SEGMENT INFORMATION

The Group’s chief operating decision maker has been identified as the Chief Executive Officer who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group uses the management approach to determine the operating segments. The management approach considers the internal organization and reporting used by the Group’s chief operating decision maker for making decisions, allocating resources and assessing the performance. There are no inter-segment revenue transactions and, therefore, revenues are only generated from external customers. The accounting policies of the segments are the same as those used by the Group.

Prior to Huanqiyimeng acquisition on August 6, 2019, the Group's operations were organized into one operating segment. As a result of the Huanqiyimeng Acquisition as described in Note 1, the Group classified the operating segments for the year ended December 31, 2019 into (i) Overseas art study services (ii) Other educational services and (iii) K12 education assessment and other services. The Group had one operating segment which was K12 education assessment and other services for the nine months ended December 31, 2017 and for the year ended December 31, 2018.

Overseas art study services has been identified as one reportable segment. Other educational services and K12 education assessment and other services were aggregated as others because individually they do not exceed the 10% quantitative threshold.

Furthermore, the Group's chief operating decision maker evaluates performance based on each reporting segment's net revenue, operating cost and expenses, and income (loss) from operations. There were no separate segment assets and segment liabilities information provided to the Group's Chief Executive Officer, as he does not use this information to allocate resources to or evaluate the performance of the segments.

The following table presents selected financial information relating to the Group's segments:

	Overseas art study services	Others	Consolidated
	RMB	RMB	RMB
For the year ended December 31, 2019:			
Net revenues	82,376,727	15,393,440	97,770,167
Operating cost and expenses:			
Cost of revenues	50,365,985	11,548,517	61,914,502
Research and development	—	11,817,255	11,817,255
Selling and marketing	27,859,200	6,253,012	34,112,212
Unallocated corporate expenses*	—	—	81,923,516
Impairment loss of intangible assets and other non-current assets	—	8,932,439	8,932,439
Provision for loan receivable and other receivables	—	17,430,825	17,430,825
Total operating cost and expenses	78,225,185	55,982,048	216,130,749
Other operating income, net	—	588,147	588,147
Income (loss) from continuing operations	4,151,542	(40,000,461)	(117,772,435)
For the year ended December 31, 2018:			
Net revenues		1,338,592	1,338,592
Operating cost and expenses:			
Cost of revenues		4,251,451	4,251,451
Research and development		19,594,484	19,594,484
Selling and marketing		5,570,169	5,570,169
General and administrative		43,507,856	43,507,856
Total operating cost and expenses		72,923,960	72,923,960
Other operating income, net		3,793,418	3,793,418
Loss from continuing operations		(67,791,950)	(67,791,950)
For nine months ended December 31, 2017:			
Net revenues		5,185,822	5,185,822
Operating cost and expenses:			
Cost of revenues		3,785,865	3,785,865
Research and development		15,415,780	15,415,780
Selling and marketing		4,539,473	4,539,473
General and administrative		40,132,709	40,132,709
Total operating cost and expenses		63,873,827	63,873,827
Other operating income, net		—	—
Loss from continuing operations		(58,688,005)	(58,688,005)

*Unallocated corporate expenses represent the general and administrative expenses for the year ended December 31, 2019.

Substantially all of the Group's operations, customers and long-lived assets are located in the PRC. Consequently, no geographic information is presented.

(18) SHARE-BASED COMPENSATION

2005 Share incentive plan

In April 2005, the Company adopted a share incentive plan (the “2005 Plan”), pursuant to which the Company is authorized to issue options to officers, employees, directors and consultants of the Group to purchase up to 2,894,000 of its common shares. In October 2007, the Company’s board of directors approved an increase in the number of shares reserved for issuance under the 2005 Plan to 3,310,300 shares. The 2005 Plan expired in April 2015. Options awards provide for accelerated vesting if there is a change in control (as defined in the 2005 Plan).

2008 Share incentive plan

On January 7, 2008, the Company adopted a share incentive plan (the “2008 Plan”), pursuant to which the Company is authorized to issue options and other share-based awards to officers, employees, directors and consultants of the Group to purchase up to 336,307 of its common shares, plus, unless the board of directors determines a lesser amount, an annual increase on January 1 of each calendar year beginning in 2009 equal to the lesser of 1) one percent of the number of shares issued and outstanding on December 31 of the immediately preceding calendar year, and 2) 336,307 shares (the “replenish terms”). The 2008 Plan expires in ten years. Options awards provide for accelerated vesting if there is a change in control (as defined in the 2008 Plan). On December 30, 2016, the Company amended the 2008 Plan to increase the number of Common Shares of the Company reserved for issuance to 5,726,763 shares and extend the plan together with the replenish terms for ten years from December 30, 2016 (the “Amendment and Restatement of 2008 Plan”). On October 26, 2018, the Company amended and restated the Amendment and Restatement of 2008 Plan to increase the number of Common Shares the Company reserved for issuance to 6,965,846 shares, extend its terms to last till October 25, 2028 and change the number of common shares automatically added to the option pool on each calendar year during its term to an amount equal to the lesser of (i) one percent of the total number of common shares issued and outstanding on December 31 of the immediately preceding calendar year, or (ii) such number of common shares as may be established by the board of directors (the “Second Amendment and Restatement of 2008 Plan”). As of December 31, 2019, 7,423,815 shares were reserved for issuance under the Second Amendment and Restatement of 2008 Plan.

Under both the 2005 Plan and 2008 Plan (including the original and both versions of the Amendment and Restatement), share options are generally granted with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months, unless a shorter or longer duration is established at the time of the option grant. Share options are granted at an exercise price equal to or as an average over a certain number of trading days of the fair market value of the Company’s share at the date of grant and expire 10 years from the grant date.

Under the 2008 Plan (including the original and both versions of the Amendment and Restatement), non-vested shares are generally granted with a graded vesting as to 25% at the end of each year from the grant date over 4 years, or with certain percentage vesting on the grant date or first anniversary of the grant date and the remaining portion vesting ratably over the following 36 months, unless a shorter or longer duration is established at the time of the grant.

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

In January 2017, 2,700,000 non-vested shares were granted to employees and officers with a graded vesting as to 25% at the end of each year from the grant date over 4 years and 900,000 share options were granted to Company’s employees and officers, 25% of the options vest on the first anniversary of the grant date with the remaining 75% vesting evenly over the following 36 months. The exercise price of these options is USD 1.705 per common share.

In August 2017, 50,000 share options were granted to an employee, 25% of the options vest on the first anniversary of the grant date with the remaining 75% vesting evenly over the following 36 months. The exercise price of these options is USD 2.35 per common share.

In July 2018, 129,168 share options and 1,262,250 non-vested shares were cancelled in connection with the ATA Online Sale Transaction. RMB 6,753,771 compensation costs were accelerated and recognized for the year ended December 31, 2018.

In November 2018, 1,772,584 share options, including 1,215,114 vested share options and 557,470 non-vested share options were cancelled in accordance with the board of directors resolutions. RMB 877,321 of compensation costs were accelerated and recognized for the year ended December 31, 2018.

ATA CREATIVITY GLOBAL
Notes to the Consolidated Financial Statements (Continued)

In November 2018, 1,452,600 share options were issued to certain employees and officers with 4 years' service condition and annual performance targets for the year 2018, 2019, 2020 and 2021, among which 363,150 share options were granted in November 2018 and the remaining portion will be granted when the employee knows the specific performance target. As the performance condition for the year 2018 was not achieved, no compensation cost was recognized for these share options. In addition, 690,000 share options were granted to employees and officers, with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months. The exercise price of these options is USD 0.578 per common share. In addition, 800,000 non-vested shares were granted to directors, with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months.

In December 2018, 1,772,584 shares were granted to employees and officers, among which 1,412,336 shares vested immediately on the grant date and the remaining shares vested for a period from January 1, 2019 to September 1, 2021.

In January and March 2019, 50,000 share options and 20,000 share options were granted to employees and officers, among which with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months. The exercise prices of these two tranches options are USD 0.4868 and USD 0.532 per common share respectively.

A summary of the share options activities for nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019 is presented below:

	Number of shares	Weighted average exercise USD	Weighted remaining contractual years	Aggregate intrinsic value USD
Outstanding as of March 31, 2017	2,451,067	2.21		
Granted	50,000	2.35		
Exercised	—	—		
Forfeited	(50,000)	1.71		
Expired	(74,000)	3.60		
Outstanding as of December 31, 2017	2,377,067	2.18		
Granted	1,053,150	0.58		
Exercised	(119,792)	1.77		
Forfeited	(123,438)	1.71		
Cancelled	(1,901,752)	2.13		
Expired	(143,023)	3.89		
Outstanding as of December 31, 2018	1,142,212	0.67		
Granted	70,000	0.50		
Exercised	—	—		
Forfeited	(809,712)	0.61		
Cancelled	—	—		
Expired	—	—		
Outstanding as of December 31, 2019	402,500	0.75		
Vested and expected to vest as of December 31, 2019	402,500	0.75	8.59	35,753
Exercisable as of December 31, 2019	122,082	0.90	8.33	8,879

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2019, was determined based on the closing price of the Company's common shares on December 31, 2019.

Information relating to options outstanding and exercisable as of December 31, 2019 is as follows:

Options outstanding as of December 31, 2019				Options exercisable as of December 31, 2019			
Number of Shares	Exercise Price per Share USD	Remaining Contractual Life Years		Number of Shares	Exercise Price per Share USD	Remaining Contractual Life Years	
62,500	1.71	7.05		35,416	1.71	7.05	
320,000	0.58	8.85		86,666	0.58	8.85	
20,000	0.53	9.21		—	—	—	
402,500	0.75	8.59		122,082	0.90	8.33	

ATA CREATIVITY GLOBAL
Notes to the Consolidated Financial Statements (Continued)

The Company calculated the fair value of the share options on the grant date, for nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019, using the Black-Scholes-Merton pricing valuation model. The assumptions used in the valuation model are summarized as follows:

	Nine months ended December 31 <u>2017</u>	Twelve months ended December 31 <u>2018</u>	Twelve months ended December 31 <u>2019</u>
Expected dividend yield	8.7%	0%	0%
Expected volatility	60%	57%	55%/54%
Expected term	6.08	5.11/6.11	6.08
Risk-free interest rate (per annum)	1.96%	3.05%/3.10%	2.53%/2.45%

The expected volatility was based on the historical volatilities of the Company. The expected term was related to the period of time the options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the United States treasury yield curve in effect at the time of grant.

Compensation expense recognized for non-vested share options for nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019 is allocated to the following expense items:

	Nine months ended December 31 <u>2017</u> RMB	Twelve months ended December 31 <u>2018</u> RMB	Twelve months ended December 31 <u>2019</u> RMB
Research and development	476,994	157,355	68,016
Sales and marketing	272,568	70,915	—
General and administrative	2,353,681	2,024,940	345,991
Total share-based compensation expense	<u>3,103,243</u>	<u>2,253,210</u>	<u>414,007</u>

As of December 31, 2019, RMB 331,885 of total unrecognized compensation expense related to non-vested share options is expected to be recognized over a weighted average period of approximately 2.78 years.

Non-vested shares

A summary of the non-vested shares activities for nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019 is presented below:

	Number of shares <u>USD</u>	Weighted average grant date fair value
Outstanding at March 31, 2017	2,700,000	1.661
Granted	—	—
Vested	(60,000)	2.145
Forfeited	(15,000)	1.650
Outstanding at December 31, 2017	<u>2,625,000</u>	<u>1.650</u>
Granted	2,572,584	0.537
Vested	(2,068,586)	0.872
Forfeited	(71,250)	1.650
Cancelled	(1,262,250)	1.650
Outstanding at December 31, 2018	<u>1,795,498</u>	<u>0.951</u>
Granted	—	—
Vested	(693,362)	0.885
Forfeited	—	—
Cancelled	—	—
Outstanding at December 31, 2019	<u>1,102,136</u>	<u>0.993</u>

The total fair value of shares vested during nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019 was USD 148,500, USD 2,591,875 and USD 461,309 respectively.

Upon vesting of the non-vested shares, the Company withholds shares issued to the employees to meet the relevant minimum tax withholding requirements. From the months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019 the Company withheld 11,252, 93,496 and 28,456 vested shares upon vesting of the non-vested shares to satisfy the minimum tax withholding obligation. Compensation expense recognized for non-vested shares from the months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019 is allocated to the following expense items:

	Nine months ended December 31 2017 RMB	Twelve months ended December 31 2018 RMB	Twelve months ended December 31 2019 RMB
Cost of revenues	—	—	—
Research and development	516,339	240,441	367,313
Sales and marketing	258,170	96,058	—
General and administrative	2,908,303	7,119,658	4,028,134
Total share-based compensation expense	3,682,812	7,456,157	4,395,447

As of December 31, 2019, RMB 2,077,009 of total unrecognized compensation expense related to non-vested shares is expected to be recognized over a weighted average period of approximately 2.17 years.

(19) COMMON SHARES

On December 18, 2019, the Company entered into a subscription agreement with CL-TCC, a company focusing on investments in culture and education industry, in connection with a private placement for the Company's common shares. ACG completed this private placement with CL-TCC on December 24, 2019, under which it issued 5,662,634 common shares of the Company for gross proceeds of approximately \$10.0 million. As of December 31, 2019, ACG has received cash consideration of \$8.8 million (RMB 61.7 million) in accordance with payment term of the subscription agreement. The rest of the proceeds of \$1.2 million (RMB 8.5 million) was received on April 10, 2020.

(20) CASH DIVIDENDS

On June 1, 2017, the Company's board of directors declared a special cash dividend of USD 0.205 per common share, or USD 0.41 per ADS. The total amount of dividend was RMB 65,698,571 and was paid in cash in June and July 2017.

On August 7, 2018, the Company's board of directors declared a special cash dividend of USD 3.00 per common share, or USD 6.00 per ADS, subject to the completion of the ATA Online Sale Transaction. The total amount of dividend was approximately RMB 946.6 million and was paid in cash on August 24, 2018 in connection with the final closing of the Transaction.

(21) STATUTORY RESERVES

In accordance with the relevant laws and regulations of the PRC, the Company's PRC consolidated entities are required to transfer 10% of their respective after tax profit, as determined in accordance with PRC accounting standards and regulations to a general reserve fund until the balance of the fund reaches 50% of the registered capital of the respective entity. The transfer to this general reserve fund must be made before distribution of dividends can be made. As of December 31, 2018 and December 31, 2019, the PRC consolidated entities had accumulated balances of statutory reserve of RMB 25,557,266 and RMB 25,671,341, respectively, which is restricted for distribution to the Company.

(22) RELATED PARTY TRANSACTIONS

Expenses paid to a Related Company on Behalf of Huanqiuyimeng

From the Acquisition Date to December 31, 2019, Huanqiuyimeng prepaid RMB 1,038,494 to Shanghai Aixue Culture Communication Co., Ltd. ("ShanghaiAixue"), a company owned by president Jun Zhang and one of the employees, by which Shanghai Aixue paid a total amount of RMB 1,037,126 of Huanqiuyimeng's operating expenses on behalf of Huanqiuyimeng. As of December 31, 2019, the outstanding balance was RMB 1,368 due from Shanghai Aixue, which is unsecured, interest free and repayable on demand.

Loan Facility

In June 2018, the prior president and director of ATA Creativity Global, Jack Huang, entered into a three-year Commercial Loan Facility (the “Facility”) with China Minsheng Bank Beijing Branch to borrow up to RMB 15,000,000 to support the working capital of ATA Education. The Facility is pledged by the real estate property of Gongyuan 16th floor owned by ATA Education, pursuant to which a corresponding three-year pledge agreement has been entered into between ATA Education and China Minsheng Bank Beijing Branch. Jack Huang and ATA Education also signed an agreement, pursuant to which all drawdowns received from China Minsheng Bank should be transferred to ATA Education and the interests of these drawdowns will be fully paid by ATA Education. ATA Education shall pay interest at 6.525% per annum on the commencement date for each drawdown. The interest rate is subject to potential adjustment based on premium interest rate stipulated by the People’s Bank of China. In June and July 2018, ATA Education has received a total of RMB 15,000,000 drawdowns and this loan has been fully paid back on October 15, 2018. The interest expenses incurred and paid by ATA Education for the year ended December 31, 2018 was RMB 249,683. On April 12, 2019, the real estate property of Gongyuan 16th floor was released from pledge and the Facility was terminated correspondingly.

Disposal of ATA Online to entities controlled by Management

On August 16, 2018, ACG completed the ATA Online Sale Transaction, among which, 67.5% of the equity interest of ATA Online was transferred to the entity controlled by ACG’s Chairman and Chief Executive Officer Mr. Kevin Xiaofeng Ma and the companies controlled by certain management members of ATA Online. See note 1 and note 26.

Receivable due from shareholder

In May 2015, the Group terminated the VIE agreements with the nominee shareholders of ATA Online. The entire equity interests of ATA Online were transferred from the nominee shareholders to ATA Learning and Zhongxiao Zhixing for a consideration of RMB 10.0 million, equivalent to the amount of the registered capital of ATA Online. As a result, ATA Online became a wholly owned subsidiary of the Group. The consideration was paid to the nominee shareholders. Mr. Haichang Xiong, has transferred his consideration of RMB 1.0 million to Mr. Kevin Xiaofeng Ma on March 29, 2016. The Group received RMB 10.0 million in cash from Mr. Kevin Xiaofeng on June 7, 2017.

Sublease of Jianwai SOHO office to Master Mind

ATA Education subleased Jianwai SOHO office to an equity investee, Master Mind Education Company (“Master Mind”), with a contract term from May 17, 2015 to May 16, 2020. Since June 2017, Master Mind has encountered severe cash flow and going concern issues and stopped making rent payment to the Company. In February 2018, the sublease agreement was terminated. The Company recognized a total sublease income of RMB 207,346, RMB nil and RMB nil, for nine months ended December 31, 2017, the years ended December 31, 2018 and 2019, respectively.

Disposal of equity interest in ZhiShang to Tianjin Zhishang

On June 27, 2017, ATA Online entered into an agreement to sell a 15% equity interest in Beijing Zhishang Education Technology Ltd. (“Zhishang”) to Tianjin Zhishang Education Technology Limited Partnership (“Tianjin Zhishang”) for a total cash consideration of RMB 1,253,550. The Executive Partner of Tianjin Zhishang is the CEO and a director of ATA Online.

(23) COMMITMENTS AND CONTINGENCIES

On April 27, 2017, the Group entered into a five-year agreement with Tsinghua University, under which ACG will support the research of the Research Institute of Future Education and Assessment at Tsinghua University under certain circumstances with funding support of RMB 50.0 million, out of which RMB 20.0 million will be paid in the following two years.

The future minimum payments under the non-cancelable agreements as of December 31, 2019 are:

	Required Payments Amount
	RMB
Year ended December 31:	
2020	10,000,000
2021	10,000,000
2022	—
2023	—
2024	—
	20,000,000

(24) OPERATING LEASES

Minimum rental income under operating lease is recognized on a straight-line basis over the term of the lease, including any periods of free rent.

Property on Operating Lease

	December 31, 2018	December 31, 2019
	RMB	RMB
Building	53,049,213	53,049,213
Less: Accumulated depreciation	(16,932,130)	(18,714,584)
	36,117,083	34,334,629

For the major rental contracts terminated during the year ended December 31, 2019, future minimum rental income under non-cancelable operating lease as of December 31, 2019 is immaterial.

(25) EARNINGS (LOSS) PER COMMON SHARE

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

	Nine months ended December 31, 2017	Twelve months ended December 31, 2018	Twelve months ended December 31, 2019
	RMB	RMB	RMB
Numerator:			
Net earnings (loss) attributable to ATA Creativity Global	29,633,544	854,925,914	(122,253,989)
Dividends paid to participating securities	(3,749,630)	(13,249,006)	—
Redeemable non-controlling interest redemption value accretion	(3,748,639)	(6,085,542)	(6,008,491)
Net earnings (loss) available to common shareholders	22,135,275	835,591,366	(128,262,480)
Denominator:			
Denominator for basic earnings (loss) per share:			
Weighted average common shares outstanding	45,793,127	45,796,886	50,915,710
Denominator for diluted earnings (loss) per share	45,793,127	45,796,886	50,915,710
Basic loss per common share from continuing operations	(1.72)	(1.81)	(2.62)
Diluted loss per common share from continuing operations	(1.72)	(1.81)	(2.62)
Basic earnings per common share from discontinued operations	2.20	20.06	0.10
Diluted earnings per common share from discontinued operations	2.20	20.06	0.10
Basic earnings (loss) per common share attributable to ATA Creativity Global	0.48	18.25	(2.52)
Diluted earnings (loss) per common share attributable to ATA Creativity Global	0.48	18.25	(2.52)

ATA CREATIVITY GLOBAL
Notes to the Consolidated Financial Statements (Continued)

The following table summarizes potential common shares outstanding excluded from the calculation of diluted earnings(loss) per share for nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019, because their effect is anti-dilutive:

	Nine months ended December 31, <u>2017</u>	Twelve months ended December 31, <u>2018</u>	Twelve months ended December 31, <u>2019</u>
Shares issuable under share options	2,377,067	1,142,212	402,500

(26) DISCONTINUED OPERATIONS

On August 16, 2018, ACG completed the ATA Online Sale Transaction, among which, 17.5% of the equity interest of ATA Online was transferred directly and indirectly to two entities affiliated with funds managed by CDH Investments, a major Chinese alternative asset management firm based in Beijing (the “CDH Entities”), for a consideration of USD 35.0 million, 16.5% of the equity interest of ATA Online was transferred to three holding companies controlled by certain management members of ATA Online (the “Management Entities”), for a consideration of USD 33.0 million, 15% of the equity interest of ATA Online was transferred to Zhuhai Lihonghuaying Equity Investment Partnership (Limited Partnership), a China-based entity principally engaged in private equity investments, or the LHHY Entity, for a consideration of USD 30.0 million, and 51% of the equity interest of ATA Online was transferred indirectly to New Beauty Holdings Limited, a company controlled by Kevin Xiaofeng Ma, for a consideration of USD 102.0 million.

Upon the final closing of the ATA Online Sale Transaction, a special cash dividend of approximately RMB 946.6 million was distributed on August 24, 2018.

Due to the closing of the Transaction, balance sheet items related to the disposed business lines will no longer be consolidated into ACG’s financial statements since the completion date of the Transaction. For the periods presented, the results of discontinued operations, less applicable income taxes, prior to the disposal date are reported as two separate components of income (loss) on the consolidated statements of comprehensive income (loss) as applicable: 1) Income (loss) from operations of discontinued operations, net of income taxes, and 2) gain from disposal of discontinued operations, net of income taxes.

The major classes of line items constituting operating results of discontinued operations included in the Company’s consolidated statements of comprehensive income (loss) were as follows for the nine months ended December 31, 2017, the year ended December 31, 2018 and the year ended December 31, 2019. The gain from disposal of discontinued operations, net of income taxes, recorded for the year ended December 31, 2019, was to account for the reimbursement of legal and consulting expenses from the buyer in relation to the sale of ATA Online business.

	Nine months ended December 31 <u>2017</u> RMB	Twelve months ended December 31 <u>2018</u> RMB	Twelve months ended December 31 <u>2019</u> RMB
Net revenues	484,873,277	194,939,146	—
Cost of revenues	255,263,889	116,432,436	—
Operating expenses	101,413,368	104,587,110	—
Other income (loss)	3,962,257	6,929,814	—
Income (loss) from operations of discontinued operations, before income taxes	132,158,277	(19,150,586)	—
Income tax expense (benefit)	31,517,344	(199,617)	—
Income (loss) from operations of discontinued operations, net of income taxes	100,640,933	(18,950,969)	—
Gain from disposal of discontinued operations, net of income taxes	—	937,605,948	4,894,197
Income from discontinued operations, net of income taxes	100,640,933	918,654,979	4,894,197
Net loss attributable to non-redeemable non-controlling interests from discontinued operations	(352,101)	(10,608)	—
Net Income from discontinued operations attributable to ATA Creativity Global	100,993,034	918,665,587	4,894,197

The condensed cash flows of the discontinued operations were as follows for the nine months ended December 31, 2017, and the years ended December 31, 2018 and 2019.

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31
	2017	2018	2019
	RMB	RMB	RMB
Net cash provided by (used in) operating activities	133,225,150	(25,108,520)	4,894,197
Net cash used in investing activities	(22,052,885)	(8,666,299)	—
Net cash used in financing activities	(93,811,830)	(21,098,633)	—

(27) SUBSEQUENT EVENTS

Coronavirus Impact

Due to the outbreak and global spreading of the Coronavirus (“COVID-19”) since January 2020, the Group’s sales have been and expected to continue being negatively impacted primarily due to the restrictions on international travels and temporary closures of overseas schools for safety considerations.

In particular, substantially all of the Company’s training centers were closed since the Spring Festival Holiday and certain restrictions were imposed for full re-opening as of the annual report date. Students with any on-campus training have been given the option to take their classes online since the COVID-19 outbreak, although some of them prefer the traditional classroom format and have postponed their training, which have adverse impact on the Company’s net revenues to be recognized from portfolio training services. Enrollment from offline training centers have also been adversely affected due to temporary closure of training centers. The Group is relying primarily on online sales channels and referrals to recruit new customers during this time and expects to resume enrolling students from offline training centers once the COVID-19 is under control. In addition, the educational travel services are materially affected by delays and cancellations of tours due to COVID-19.

The Group will continue to monitor the situation and act upon proactively. Given the uncertainty and dynamic nature of these circumstances, resulting in reduced enrollment for various services, the related financial impact cannot be reasonably estimated at this time but a material adverse impact is expected on the Company’s results of operations, cash flows and financial position for 2020.

Legal Proceedings

In March 2020, two of the Company’s shareholders, Alpha Advantage Global Limited (“Alpha”) and Dynamic Fame Limited (“Dynamic”) filed separate lawsuits with the Beijing Intermediate Court against the Company and Mr. Kevin Xiaofeng Ma, the chairman and chief executive officer of the Company relating to ATA Online Sale Transaction. The lawsuits claim that the board of the directors of the Company did not have the right to approve ATA Online Sale Transaction, because the approval by unrelated shareholders is required, and that the ATA Online Business was worth more than the total consideration of US\$200.0 million. As a result, the sale has resulted in loss to the plaintiffs.

The plaintiffs requested the overturn of all board resolutions of the Company regarding ATA Online Sale Transaction, Mr. Kevin Xiaofeng Ma to compensate RMB 95.0 million and RMB 5.0 million, respectively for the loss incurred by Alpha and Dynamic as a result of ATA Online Sale Transaction, and the Company and Mr. Kevin Xiaofeng Ma jointly bear the attorney’s fees of RMB 1.5 million and RMB 0.5 million respectively for Alpha and Dynamic, and other litigation costs incurred.

In addition, Alpha and Dynamic jointly filed a lawsuit with Ningbo Intermediate Court against Mr. Kevin Xiaofeng Ma, certain entities controlled by management members of ATA Online which were members of the buyer group, New Beauty Holdings Limited, a director of the Company, ChineseAll Digital Publishing Group Co., Ltd. and ATA Learning in connection with ATA Online Sale Transaction, and listed the Company and ATA Online as interested third parties. The plaintiffs requested the overturn of all related party transactions between the defendants and the Company relating to ATA Online Sale Transaction, and Mr. Kevin Xiaofeng Ma, the entities controlled by management members of ATA Online and ChineseAll Digital Publishing Group Co., Ltd. to return the equity interest of ATA Online and ATA Learning they acquired to ATA Learning and ATA BVI, as the case may be, and all defendants and the Company to jointly bear the attorney’s fees of the plaintiffs in the amount of RMB 15.0 million and other litigation cost.

ATA CREATIVITY GLOBAL
Notes to the Consolidated Financial Statements (Continued)

As of the annual report date, the Company has filed an application for jurisdiction objection with the Beijing Intermediate Court for the lawsuits. While it is premature at this stage of the litigations to evaluate the likelihood of favorable or unfavorable outcomes, the Company believes that the plaintiffs' claims lack merits and shall defend itself against those allegations. In accordance with ASC Topic 450, no accrual of loss contingency was accrued as of December 31, 2019 since it is not probable that a liability has been incurred and the amount of loss cannot be reasonably estimated.

(28) ATA CREATIVITY GLOBAL (“PARENT COMPANY”)

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

Condensed Balance Sheets

	December 31, 2018	December 31, 2019	December 31, 2019
	RMB	RMB	USD
Cash and cash equivalents	15,396,381	77,996,136	11,203,444
Prepaid expenses and other current assets	3,104	13,154	1,888
Subscription receivable	—	8,530,931	1,225,392
Loan receivable, net	14,532,685	4,126,502	592,735
Investments in subsidiaries	247,870,563	213,391,690	30,651,798
Total assets	277,802,733	304,058,413	43,675,257
Accrued expenses and other current liabilities	1,985,894	3,918,340	562,834
Total liabilities	1,985,894	3,918,340	562,834
Common shares	3,534,871	4,692,312	674,008
Treasury shares	(27,737,073)	(27,737,073)	(3,984,181)
Additional paid in capital	410,195,990	560,814,066	80,555,900
Accumulated other comprehensive loss	(38,288,364)	(37,478,167)	(5,383,402)
Accumulated deficit	(71,888,585)	(200,151,065)	(28,749,902)
Total shareholders' equity	275,816,839	300,140,073	43,112,423
Total liabilities and shareholders' equity	277,802,733	304,058,413	43,675,257

Condensed Statements of Comprehensive Income (Loss)

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31	
	2017	2018	2019	2019
	RMB	RMB	RMB	USD
Operating expenses	(14,273,099)	(4,963,891)	(6,928,823)	(995,263)
Provision for loan receivable	—	—	(11,843,167)	(1,701,164)
Investment income (loss)	40,802,611	852,782,280	(110,881,674)	(15,927,156)
Interest expense	(52,074)	(446)	—	—
Interest income	15,394	1,306,567	1,391,183	199,831
Foreign currency exchange gains (losses), net	(607,927)	(284,138)	1	—
Earnings (loss) before income taxes	25,884,905	848,840,372	(128,262,480)	(18,423,752)
Income tax expense	—	—	—	—
Net income (loss)	25,884,905	848,840,372	(128,262,480)	(18,423,752)
Other comprehensive income (loss)	(1,781,184)	(11,437,409)	810,197	116,378
Comprehensive income (loss)	24,103,721	837,402,963	(127,452,283)	(18,307,374)

Condensed Statements of Cash Flows

	Nine months ended December 31	Twelve months ended December 31	Twelve months ended December 31	
	2017	2018	2019	2019
	RMB	RMB	RMB	USD
Net cash used in operating activities	(5,003,772)	(29,996,291)	(4,797,830)	(689,165)
Cash flows from investing activities :				
Cash received from subsidiaries	73,178,416	1,001,941,215	—	—
Loan lent to Beijing Biztour	—	(13,745,856)	—	—
Proceeds from disposal of discontinued operations	—	—	4,894,197	703,007
Net cash provided by investing activities	73,178,416	988,195,359	4,894,197	703,007
Cash flows from financing activities :				
Private placement	—	—	61,693,192	8,861,673
Cash received for exercise of share options	—	1,433,441	—	—
Special cash dividend	(65,698,571)	(946,611,803)	—	—
Net cash used in financing activities	(65,698,571)	(945,178,362)	61,693,192	8,861,673
Effect of foreign exchange rate changes on cash	(1,173,526)	568,046	810,196	116,377
Net increase in cash	1,302,547	13,588,752	62,599,755	8,991,892
Cash at beginning of period	505,082	1,807,629	15,396,381	2,211,552
Cash at end of period	1,807,629	15,396,381	77,996,136	11,203,444

**DESCRIPTION OF SECURITIES
REGISTERED UNDER SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

The American Depositary Shares (“ADSs”), each representing two common shares of ATA Creativity Global (“we,” “our,” the “Company,” or “us”), are registered under Section 12(b) of the Securities Exchange Act of 1934, as amended, and are listed and traded on the Nasdaq Global Market. This exhibit contains a description of the rights of (i) the holders of our common shares and (ii) the holders of our ADSs. Our common shares underlying the ADSs are held by Citibank, N.A., as depository, and holders of our ADSs are not treated as holders of our common shares.

DESCRIPTION OF COMMON SHARES

General

Our authorized share capital is US\$5,000,000, divided into 500,000,000 common shares, par value US\$0.01 per share. Our common shares may be certificated or uncertificated, and ownership is not recognized until registered in our Register of Members. No shares shall be issued as bearer securities. Our common shares are not available to the market; rather, our ADSs are traded on the Nasdaq Global Market.

We are an exempted company limited by shares, with limited liability incorporated under the Companies Law (as amended) of the Cayman Islands (the “Companies Law”), on September 22, 2006. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares. A Cayman Islands exempted company:

- is a company that conducts its business outside the Cayman Islands;
- is exempted from certain requirements of the Companies Law, including the filing of an annual return of its shareholders with the Registrar of Companies and holding an annual general meeting;
- does not have to make its register of members open to inspection;
- may obtain an undertaking against the imposition of any future taxation; and
- may issue shares with no par value shares.

Our affairs are governed by our third amended and restated memorandum and articles of association, as amended (the “Memorandum and Articles of Association”) and the Companies Law. The following summarizes the material terms of our Memorandum and Articles of Association and the Companies Law insofar as they relate to the material terms of our common shares. This summary is not complete, and you should read our Memorandum and Articles of Association, which were filed with the U.S. Securities and Exchange Commission (the “SEC”) and are incorporated by reference as an exhibit to the annual report of which this exhibit is a part.

The following discussion primarily addresses our common shares and the rights of holders of common shares. The holders of our ADSs are not be treated as our shareholders and will be required to surrender their ADSs for cancellation and withdrawal from the depository facility in which the common shares are held in order to receive the shares that their ADSs represent, and to exercise shareholders’ rights in respect of the common shares. However, the holders of ADSs generally have the right under the deposit agreement to instruct the depository bank to exercise the voting rights for the common shares represented by their ADSs. See “DESCRIPTION OF AMERICAN DEPOSITARY SHARES” below.

Meetings

Subject to the company's regulatory requirements, an annual general meeting and any extraordinary general meeting shall be called by not less than ten days' notice in writing. Notice of every general meeting will be given to all of our shareholders other than those that, under the provisions of our Memorandum and Articles of Association or the terms of issue of the common shares they hold, are not entitled to receive such notices from us, and also to our principal external auditors. Extraordinary general meetings may be called only by the chairman of our board of directors or a majority of our board of directors and may not be called by any other person.

A meeting called by shorter notice than that mentioned above, nevertheless, subject to the Companies Law, will be deemed to have been duly called, if it is so agreed (1) in the case of a meeting called as an annual general meeting by all of our shareholders entitled to attend and vote at the meeting; (2) in the case of any other meeting, by a majority in number of our shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued common shares giving that right.

Two shareholders present in person or by proxy that represent not less than one-third in nominal value of our total issued and outstanding voting shares will constitute a quorum. No business other than the appointment of a chairman may be transacted at any general meeting unless a quorum is present at the commencement of business. However, the absence of a quorum will not preclude the appointment of a chairman. If present, the chairman of our board of directors shall be the chairman presiding at any shareholders meetings.

A corporation being a shareholder shall be deemed for the purpose of our Memorandum and Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting or at any relevant general meeting of any class of our shareholders. Such duly authorized representative shall be entitled to exercise the same powers on behalf of the corporation that he represents as that corporation could exercise if it were our individual shareholder.

The quorum for a separate general meeting of the holders of a separate class of shares is described in "—Modification of Rights" below.

Voting Rights Attaching to the Shares

Subject to any special rights or restrictions as to voting attached to any shares, at any general meeting on a show of hands every shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall have one vote, and on a poll every shareholder present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall have one vote for each fully paid share of which such shareholder is the holder.

Under our Memorandum and Articles of Association, all votes will be by hand unless voting by way of a poll is required by the rules of the Nasdaq Global Market, or a poll is demanded by (i) the chairman of the meeting, (ii) at least three shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting, (iii) any shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting, (iv) by a shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at a meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid on all shares conferring that right, or (v) if required by the rules of the Nasdaq Global Market, by any director or directors of the Company who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at such meeting.

No shareholder shall be entitled to vote or be reckoned in a quorum, in respect of any share, unless such shareholder is duly registered as our shareholder at the applicable record date for that meeting and all calls or installments due by such shareholder to us have been paid.

If a recognized clearing house (or its nominee(s)), being a corporation, is our shareholder, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of shareholders provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision is entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of our shares held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Protection of Minority Shareholders

The Grand Court of the Cayman Islands may, on the application of shareholders holding not less than one-fifth of our shares in issue, appoint an inspector to examine our affairs and to report thereon in a manner as the Grand Court of the Cayman Islands shall direct.

Any shareholder may petition that the Grand Court of the Cayman Islands may make a winding up order, if the court is of the opinion that it is just and equitable that we should be wound up.

Claims against us by our shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our Memorandum and Articles of Association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against, or derivative actions in our name to challenge (1) an act which is *ultra vires* or illegal, (2) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of us, and (3) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

Pre-Emption Rights

There are no pre-emption rights applicable to the issue of new shares under either Cayman Islands law or our Memorandum and Articles of Association.

Liquidation Rights

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares, (1) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* among those shareholders in proportion to the amount paid up at the commencement of the winding up on the shares held by them, respectively; and (2) if we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the paid-up capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by the shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them, respectively.

If we are wound up, the liquidator may with the sanction of our special resolution and any other sanction required by the Companies Law, divide among our shareholders in specie or kind the whole or any part of our assets (whether or not they shall consist of properties of the same kind) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also vest any part of these assets in trustees upon such trusts for the benefit of the shareholders as the liquidator shall think fit, but so that no shareholder will be compelled to accept any shares or other property upon which there is a liability.

Modification of Rights

Except with respect to share capital (as described below) and the location of the registered office, alterations to our Memorandum and Articles of Association may only be made by special resolution, meaning a majority of not less than two-thirds of votes cast at a shareholders meeting.

Subject to the Companies Law and without prejudice to the provisions relating to share rights in our Memorandum and Articles of Association, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of our Memorandum and Articles of Association relating to general meetings shall apply similarly to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting or at its adjourned meeting shall be a person or persons together holding (or represented by proxy) on the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

Alteration of Capital

We may from time to time by the vote of a majority of the shares entitled to vote thereon (an "ordinary resolution"):

- increase our capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of larger amounts than our existing shares;
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law;

- sub-divide our shares or any of them into shares of smaller amounts than is fixed by our third amended and restated memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have any such preferred, deferred or other rights, or be subject to any such restrictions as compared with the others as we have power to attach to unissued or new shares; and
- divide our shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to these shares respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions that in the absence of any such determination in general meeting may be determined by our directors.

We may, by the vote of two-thirds of the votes entitled to vote thereon (a "special resolution"), subject to any confirmation or consent required by the Companies Law, reduce our share capital or any capital redemption or other undistributable reserve in any manner authorized by law.

Transfer of Shares

Subject to any applicable restrictions set forth in our Memorandum and Articles of Association, any of our shareholders may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in a form prescribed by the Nasdaq Global Market or in any other form that our directors may approve.

Our directors may decline to register any transfer of any share which is not paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless:

- the instrument of transfer is lodged with us accompanied by the certificate for the shares to which it relates and such other evidence as our directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of share;
- the instrument of transfer is properly stamped (in circumstances where stamping is required); and
- a fee of such maximum sum as the Nasdaq Global Market may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on notice being given by advertisement in such one or more newspapers or by any other means in accordance with the requirements of the Nasdaq Global Market, be suspended and the register closed at such times and for such periods as our directors may from time to time determine; provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our directors may determine.

Share Repurchase

We are empowered by the Companies Law and our Memorandum and Articles of Association to purchase our own shares, subject to certain restrictions. Our directors may only exercise this power on our behalf, subject to the Companies Law, our Memorandum and Articles of Association and to any applicable requirements imposed from time to time by the Nasdaq Global Market, the SEC, or by any other recognized stock exchange on which our securities are listed.

Dividends

Subject to the Companies Law, our directors may declare dividends in any currency to be paid to our shareholders. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our directors determine is no longer needed. Our board of directors may also declare and pay dividends out of the share premium account or any other fund or account that can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides, (1) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share; and (2) all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Our directors may also pay any dividend that is payable on any shares semi-annually or on any other dates, whenever our financial position, in the opinion of our directors, justifies such payment.

Our directors may deduct from any dividend or bonus payable to any shareholder all sums of money (if any) presently payable by such shareholder to us on account of calls or otherwise.

No dividend or other money payable by us on or in respect of any share shall bear interest against us.

In respect of any dividend proposed to be paid or declared on our share capital, our directors may resolve and direct that (1) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that our shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof if our directors so determine) in cash in lieu of such allotment or (2) the shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our directors may think fit. Our directors may also resolve in respect of any particular dividend that, notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or dividend warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every check or dividend warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the check or dividend warrant by the bank on which it is drawn shall constitute a good discharge to us.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by our board of directors for the benefit of our company until claimed. Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to us.

Whenever our directors have resolved that a dividend be paid or declared, our directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for our securities or securities of any other company. Where any difficulty arises with regard to such distribution, our directors may settle it as they think expedient. In particular, our directors may issue fractional certificates, ignore fractions altogether or round the same up or down, fix the value for distribution purposes of any such specific assets, determine that cash payments shall be made to any of our shareholders upon the footing of the value so fixed in order to adjust the rights of the parties, vest any such specific assets in trustees as may seem expedient to our directors, and appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, which appointment shall be effective and binding on our shareholders.

Untraceable Shareholders

We are entitled to sell any shares of a shareholder who is untraceable, provided that:

- all checks or warrants in respect of dividends of such shares, being not less than three in total number, for any sums payable in cash to the holder of such shares have remained un-cashed for a period of 12 years prior to the publication of the advertisement and during the three months referred to below;
- we have not during that time received any indication of the existence of the shareholder or person entitled to such shares by death, bankruptcy or operation of law; and
- we have caused an advertisement to be published in newspapers in the manner stipulated by our Memorandum and Articles of Association, giving notice of our intention to sell these shares, and a period of three months has elapsed since such advertisement and the Nasdaq Global Market has been notified of such intention.

The net proceeds of any such sale shall belong to us, and when we receive these net proceeds we shall become indebted to the former shareholder for an amount equal to such net proceeds.

Differences in Corporate Law

The Companies Law is modeled after similar laws in England but does not follow recent changes in English 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. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies in the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with, among others, a declaration as to the solvency of the consolidated or surviving company, a statement of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

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

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provided that the dissenting shareholder complies strictly with the procedures set out in the Companies Law. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the ground that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Law also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent seventy-five per cent in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

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

The Companies Law also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, by notice in the prescribed manner require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted, in accordance with the foregoing statutory procedures, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders’ Suits. In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company, and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) so that a non-controlling shareholder may be permitted to commence a class action against or derivative actions in the name of the company to challenge actions where:

- a company acts or proposes to act illegally or ultra vires;

- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

Corporate Governance. Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe a fiduciary duty to the companies for which they serve. Under our Memorandum and Articles of Association, subject to any separate requirement for audit committee approval under the applicable rules of the Nasdaq Stock Market, Inc. or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such meeting.

Indemnification of Directors and Executive Officers and Limitation of Liability. The ability of Cayman Islands companies to provide in their articles of association for indemnification of officers and directors is limited, insofar as it is not permissible for the directors to contract out of the core fiduciary duties they owe to the company, nor would any indemnity be effective if it were held by the Cayman Islands courts to be contrary to public policy, which would include any attempt to provide indemnification against civil fraud or the consequences of committing a crime. Our Memorandum and Articles of Association provide that our directors and officers shall be indemnified against all actions, costs, charges, losses, damages and expenses they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices, or in relation thereto; provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of our directors and officers. In addition, each shareholder agrees to waive any claim or right of action he might have, whether individually or by or in the right of the Company, against any director on account of any action taken by such director, or the failure of such director to take any action in the performance of his duties with or for the Company; provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such director.

Anti-Takeover Provisions in Our Memorandum and Articles of Association. Some provisions of our Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders, and the fact that we have a classified board of directors, with three classes of directors, each of which stands for election in a given year to serve for a term of three years, unless a director earlier resigns or is removed.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our Memorandum and Articles of Association, as amended and restated from time to time, for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Directors' Fiduciary Duties. Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation and its stockholders. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore he owes duties to the company including the following—a duty to act in good faith in the best interests of the company, a duty not to make a personal profit based on his or her position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with diligence, skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Proposals. Under the SEC's rules and regulations, a shareholder has the right to put any proposal before the annual meeting of shareholders of a public company, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but in keeping with common law, Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Cayman Islands law provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to table resolutions at a general meeting. However, these rights may be provided in a company's articles of association. Our Memorandum and Articles of Association provide that, an annual general meeting of the Company shall be held in each year other than the year of the Company's incorporation; each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting, which may be called only by the chairman of our board of directors or a majority of our board of directors and may not be called by any other person. As an exempted Cayman Islands company, we are not obliged by law to hold shareholders' annual general meetings.

Cumulative Voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. Cayman Islands law does not prohibit cumulative voting, but our Memorandum and Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Appointment of Directors. The shareholders may by ordinary resolution elect any person to be a director to fill a casual vacancy, and by special resolution elect any person to be a director as an addition to the existing board of directors. The directors may appoint any person as a director to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. Any director appointed by the board of directors to fill a casual vacancy shall, unless designated by the board of directors as a class A director, a class B director or a class C director, hold office until the first general meeting after his appointment and be subject to re-election at such meeting, and any director appointed by the board of directors as an addition to the existing board of directors shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Removal of Directors. Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, directors may be removed at any time by special resolution of our shareholders notwithstanding any agreement between the Company and such director (but without prejudice to any claim for damages under such agreement).

Transactions with Interested Shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute in its certificate of incorporation or bylaws, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its shareholders or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its shareholders. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Law and our Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, subject to the Companies Law and without prejudice to the provisions relating to share rights in our Memorandum and Articles of Association, we may only vary the rights attached to any class of shares (subject to the terms of issue of the shares of that class) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation's certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. Under the Companies Law, our Memorandum and Articles of Association may only be amended by special resolution of our shareholders.

Rights of Non-Resident or Foreign Shareholders. There are no limitations imposed by our Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Directors' Power to Issue Shares. Under our Memorandum and Articles of Association, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

Issuance of Additional Common Shares or Preferred Shares

Our Memorandum and Articles of Association authorizes our board of directors to issue additional common shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our Memorandum and Articles of Association authorize our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue series of preferred shares without action by our shareholders to the extent authorized but unissued. Accordingly, the issuance of preferred shares may adversely affect the rights of the holders of the common shares. In addition, the issuance of preferred shares may be used as an anti-takeover device without further action on the part of the shareholders. Issuance of preferred shares may dilute the voting power of holders of common shares.

Subject to applicable regulatory requirements, our board of directors may issue additional common shares without action by our shareholders to the extent of available authorized but unissued shares. The issuance of additional common shares may be used as an anti-takeover device without further action on the part of the shareholders. Such issuance may dilute the voting power of existing holders of common shares.

Inspection of Books and Records

Holders of our common shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, our Memorandum and Articles of Association provide that our register of members will be open to inspection for such times and on such days as our board of directors shall determine. Our accounting and other records are not available for inspection (other than by the board of directors) unless otherwise provided by applicable law, authorized by the board of the directors, or by the shareholders in a general meeting. However, we will provide our shareholders with annual audited financial statements.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American Depositary Shares

General

American Depositary Shares are frequently referred to as “ADSs” and represent ownership interests in securities that are on deposit with a depositary bank. ADSs may be represented by certificates that are commonly known as “American Depositary Receipts” or “ADRs.” Our ADRs are titled “American Depositary Receipt for American Depositary Shares representing Deposited Common Shares of ATA Creativity Global.”

Citibank, N.A. (the “depository” or the “depository bank”) has agreed to act as the depository bank for the American Depositary Shares. Citibank, N.A.’s depository offices are located at 388 Greenwich Street, 6th Floor, New York, New York 10013, U.S.A. A depository bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank Hong Kong (the “custodian”). We appointed Citibank, N.A. as depository pursuant to a deposit agreement, which has been filed with the SEC under cover of a Registration Statement on Form F-6 and is incorporated by reference as an exhibit to the annual report of which this exhibit is a part. .

We are providing you with a summary description of the material terms of the ADSs and of your material rights as an owner of ADSs. Please remember that summaries by their nature lack the precision of the information summarized and that a holder’s rights and obligations as an owner of ADSs will be determined by reference to the terms of the deposit agreement and not by this summary. This summary is not complete, and you should read the entire deposit agreement.

Each ADS represents rights with regard to two common shares on deposit with the custodian, including the right to receive any other property received by the depository bank or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations, and to instruct the depository how you would like to vote the shares which your ADSs represent.

If are an owner of ADSs, you are party to the deposit agreement and therefore will be bound to its terms and to the terms of the ADR that represents your ADSs. The deposit agreement and the ADRs specify our rights and obligations as well as your rights and obligations as an owner of ADSs and those of the depository. As a holder of our ADSs, you appoint the depository to act on your behalf in certain circumstances. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of common shares will continue to be governed by the laws of the Cayman Islands, which may be different from the laws of the United States.

As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name, through a brokerage account, or through an account established by the depositary bank in your name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank (commonly referred to as the “direct registration system”). The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the ADSs. The direct registration system includes automated transfers between the depositary bank and The Depository Trust Company (“DTC”), the central book-entry clearing and settlement system for equity securities in the United States. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as an ADS owner. Banks and brokers typically hold securities such as ADSs through clearing and settlement systems such as DTC. The procedures of such clearing and settlement systems may limit your ability to exercise your rights as an owner of ADSs. Please consult with your broker or bank if you have any questions concerning these limitations and procedures. No ADSs will be issued in bearer form. This summary description assumes you have opted to own the ADSs directly by means of an ADR registered in your name and, as such, we will refer to you as the “holder.” When we refer to “you,” we assume the reader owns ADSs and will own ADSs at the relevant time. If you hold your ADSs through a brokerage, please consult your broker for their own procedures regarding the topics discussed below.

Notices

The depositary shall arrange, at our request and expense, to provide copies thereof to all holders or make such notices, reports and other communications, including proxy soliciting materials, available to all holders on a basis similar to that for holders of shares or on such other basis as we may advise the depositary or as may be required by any applicable law, regulation or stock exchange requirement.

On or before the first date on which we give notice, by publication or otherwise, of any meeting of holders of shares or of any adjourned meeting or of the taking of any action by such holders other than at a meeting, or of the taking of any action in respect of any cash or other distributions or the offering of any rights in respect of our common shares, we will transmit to the depositary and the custodian a copy of the notice thereof in the English language but otherwise in the form given or to be given to holders of our shares. The Company shall also furnish to the custodian and the depositary a summary, in English, of any applicable provisions or proposed provisions of the Memorandum and Articles of Association that may be relevant or pertain to such notice of meeting or be the subject of a vote thereat.

The depositary will, at our expense, make available a copy of any such notices, reports or communications issued by us and delivered to the depositary for inspection by the holders of the ADSs at the depositary's principal office, at the office of the custodian and at any other designated transfer office.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the custodian bank. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date.

Distributions of Cash

Whenever we make a cash distribution for the securities on deposit with the custodian, we will give prior notice thereof to the depositary bank and we will deposit the funds with the custodian. Upon receipt of confirmation of the deposit of the requisite funds, the depositary bank will arrange, if necessary, for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the laws of the Cayman Islands and regulations.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depository will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

Distributions of Shares

Whenever we make a free distribution of common shares for the securities on deposit with the custodian, we will give prior notice thereof to the depository bank. The depository bank will either distribute to holders new ADSs representing the common shares deposited or modify the ADS-to-common shares ratio, in which case each ADS you hold will represent rights and interests in the additional shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new ADSs or the modification of the ADS-to-common shares ratio upon a distribution of shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes or governmental charges, the depository bank may sell all or a portion of the new shares so distributed.

No such distribution of new ADSs will be made if it would violate applicable law or if it is not operationally practicable. If the depository bank does not distribute new ADSs as described above, it may sell the common shares received upon the terms described in the deposit agreement and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever we intend to distribute rights to purchase additional common shares, we will give prior notice to the depository bank and we will assist the depository bank in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional ADSs to holders.

The depository bank will establish procedures to distribute rights to purchase additional ADSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depository bank is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new common shares other than in the form of ADSs.

The depository bank will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you;
- We fail to deliver satisfactory documents to the depository bank; or
- It is not reasonably practicable to distribute the rights.

The depository bank will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depository bank is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional shares, we will give prior notice thereof to the depository bank and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the depository bank in determining whether such distribution is lawful and reasonably practicable.

The depository bank will make the election available to you only if it is reasonably practical and if we have provided all of the documentation contemplated in the deposit agreement. In such case, the depository bank will establish procedures to enable you to elect to receive either cash or additional ADSs, in each case as described in the deposit agreement.

If the election is not made available to you, you will receive either cash or additional ADSs, depending on what a shareholder would receive upon failing to make an election, as more fully described in the deposit agreement.

Other Distributions

Whenever we intend to distribute property other than cash, common shares or rights to purchase additional common shares, we will notify the depository bank in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the depository bank in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the deposit agreement, the depository bank will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the depository bank may sell all or a portion of the property received.

The depository bank will not distribute the property to you and will sell the property if:

- We do not request that the property be distributed to you or if we ask that the property not be distributed to you;
- We do not deliver satisfactory documents to the depository bank; or
- The depository bank determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

Redemptions

Whenever we decide to redeem any of the securities on deposit with the custodian, we will notify the depository bank. If it is reasonably practicable and if we provide all of the documentation contemplated in the deposit agreement, the depository bank will provide a notice of the redemption to the holders.

The custodian will be instructed to surrender the shares being redeemed against payment of the applicable redemption price. The depository bank will convert the redemption funds received into U.S. dollars upon the terms of the deposit agreement and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their ADSs to the depository bank. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your ADSs. If less than all ADSs are being redeemed, the ADSs to be retired will be selected by lot or on a pro rata basis, as the depository bank may determine.

Changes Affecting Shares

The common shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your ADSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the common shares held on deposit. The depository bank may in such circumstances deliver new ADSs to you or call for the exchange of your existing ADSs for new ADSs. If the depository bank may not lawfully distribute such property to you, the depository bank may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of ADSs Upon Deposit of Common Shares

The depository bank may create ADSs on your behalf if you or your broker deposit common shares with the custodian. The depository bank will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the common shares to the custodian. Your ability to deposit common shares and receive ADSs may be limited by U.S. and Cayman Islands legal considerations applicable at the time of deposit.

The issuance of ADSs may be delayed until the depository bank or the custodian receives confirmation that all required approvals have been given and that the common shares have been duly transferred to the custodian. The depository bank will only issue ADSs in whole numbers.

If you make a deposit of common shares, you will be responsible for transferring good and valid title to the depository bank. As such, you will be deemed to represent and warrant that:

- The common shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All preemptive (and similar) rights, if any, with respect to such common shares have been validly waived or exercised.
- You are duly authorized to deposit the common shares.
- The common shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and are not, and the ADSs issuable upon such deposit will not be, "restricted securities" (as defined in the deposit agreement).
- The shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, we and the depository bank may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

Transfer, Combination and Split Up of ADRs

As an ADR holder, you will be entitled to transfer, combine or split up your ADRs and the ADSs evidenced thereby. For transfers of ADRs, you will have to surrender the ADRs to be transferred to the depositary bank and also must:

- Ensure that the surrendered ADR certificate is properly endorsed or otherwise in proper form for transfer;
- Provide such proof of identity and genuineness of signatures as the depositary bank deems appropriate;
- Provide any transfer stamps required by the State of New York or the United States; and
- Pay all applicable fees, charges, expenses, taxes and other government charges payable by ADR holders pursuant to the terms of the deposit agreement, upon the transfer of ADRs.

To have your ADRs either combined or split up, you must surrender the ADRs in question to the depositary bank with your request to have them combined or split up, and you must pay all applicable fees, charges and expenses payable by ADR holders, pursuant to the terms of the deposit agreement, upon a combination or split up of ADRs.

Withdrawal of Shares Upon Cancellation of ADSs

As a holder, you will be entitled to present your ADSs to the depositary bank for cancellation and then receive the corresponding number of underlying common shares at the custodian's offices. Your ability to withdraw the common shares may be limited by U.S. and Cayman Islands legal considerations applicable at the time of withdrawal. In order to withdraw the common shares represented by your ADSs, you will be required to pay to the depositary the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the common shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold ADSs registered in your name, the depositary bank may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary bank may deem appropriate before it will cancel your ADSs. The withdrawal of the shares represented by your ADSs may be delayed until the depositary bank receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary bank will only accept ADSs for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your ADSs at any time except for:

- Temporary delays that may arise because (i) the transfer books for the common shares or ADSs are closed, or (ii) common shares are immobilized on account of a shareholders' meeting or a payment of dividends.
- Obligations to pay fees, taxes and similar charges.
- Restrictions imposed because of laws or regulations applicable to ADSs or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

Voting Rights

As a holder, you generally have the right under the deposit agreement to instruct the depositary bank to exercise the voting rights for the common shares represented by your ADSs. The voting rights of holders of common shares are described in “—Voting Rights Attaching to the Shares” above.

At our request, the depositary bank will distribute to you any notice of shareholders’ meeting received from us together with information explaining how to instruct the depositary bank to exercise the voting rights of the securities represented by ADSs.

If the depositary bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder’s ADSs in accordance with such voting instructions.

In the event of voting by a show of hands, each shareholder has one vote irrespective of the number of shares held by such person and the depositary shall vote or cause the custodian to vote all the shares then on deposit in accordance with instructions received from a majority of holders giving voting instructions. In the event of poll voting, each shareholder has an amount of votes equal to the number of shares held as of record date for the meeting and the depositary shall vote or cause the custodian to vote the shares on deposit in respect of ADSs for which holder of ADSs have timely given voting instructions to the depositary.

If the depositary timely receives voting instructions from a holder of ADSs that fail to specify the manner in which the depositary is to vote the shares represented by that holder’s ADSs, the depositary will deem the holder to have voted in favor of the items set forth in the voting instructions. If the depositary does not timely receive voting instructions from a holder of ADSs and we have timely provided the depositary with our notice of meeting and related materials, that holder will be deemed, and the depositary will deem that holder to have instructed the depositary to give a discretionary proxy to a person designated by us to vote the shares represented by the ADSs at our discretion, unless:

- we have failed to timely provide the depositary with our notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- voting at the meeting is made on a show of hands.

We have advised the depositary bank that under the Cayman Islands’ law as in effect as of the date of the deposit agreement, voting at any meeting of shareholders is by show of hands unless a poll is demanded. The depositary will not join in demanding a poll, whether or not requested to do so by holders of ADSs. Please see above under “—Voting Rights Attaching to the Shares.”

Please note that the ability of the depositary bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary bank in a timely manner. Securities for which no voting instructions have been received will not be voted.

Amendments and Termination

We may agree with the depository bank to modify the deposit agreement at any time without your consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the ADSs to be registered under the Securities Act of 1933, as amended, or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the common shares represented by your ADSs (except to comply with mandatory provisions of law).

We have the right to direct the depository bank to terminate the deposit agreement. Similarly, the depository bank may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depository bank must give notice to the holders at least 30 days before termination, which notice shall fix a date for termination of the deposit agreement.

After the termination and prior to any sale of the securities held on deposit (as described below), you will be able to request the cancellation of your ADSs and the withdrawal of the common shares represented by your ADSs and the delivery of all other property held by the depository bank in respect of those common shares on the same terms as prior to the termination. During such period, the depository bank will continue to collect all distributions received on the common shares on deposit (e.g., dividends) but will not distribute any such property to you until you request the cancellation of your ADSs.

At any time after the date fixed for termination of the deposit agreement, the depository bank may sell the securities held on deposit. The depository bank will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depository bank will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding (after deduction of applicable fees, expenses and taxes).

After termination, your obligations under the deposit agreement as an ADS holder will continue until your ADSs are presented to the depository bank for cancellation.

Books of Depository

The depository bank will maintain ADS holder records at its depository office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depository bank will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits our obligations and the depository bank's obligations to you. Please note the following:

- We and the depository bank are obligated only to take the actions specifically stated in the deposit agreement without negligence or bad faith.

- The depositary bank disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided that it acts in good faith and in accordance with the terms of the deposit agreement.
- The depositary bank disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in common shares, for the validity or worth of the common shares, for any tax consequences that result from the ownership of ADSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreement, for the timeliness of any of our notices or for our failure to give notice.
- We and the depositary bank will not be obligated to perform any act that is inconsistent with the terms of the deposit agreement.
- We and the depositary bank disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our Memorandum and Articles of Association, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.
- We and the depositary bank disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreement or in our Memorandum and Articles of Association or in any provisions of securities on deposit.
- We and the depositary bank further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the depositary bank also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of common shares but is not, under the terms of the deposit agreement, made available to you.
- We and the depositary bank may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We and the depositary bank also disclaim liability for any consequential or punitive damages for any breach of the terms of the deposit agreement.

Supplemental Agreement II to ATA Intelligent Learning VIE Agreements

This agreement is entered into and effective on April 20, 2019 in Beijing, People's Republic of China by and between:

- 1) ATA Education Technology (Beijing) Limited (hereinafter referred to as "ATA Education")
- 2) ATA Intelligent Learning (Beijing) Technology Limited (hereinafter referred to as "ATA Intelligent Learning")
- 3) Kevin Xiaofeng Ma, PRC ID No. *****
- 4) Haichang Xiong, PRC ID No. *****

Whereas:

- 1) The parties have entered into the following agreements on March 15, 2018 in connection with the establishment of ATA Intelligent Learning as the VIE entity of the group:
 - Loan Agreements entered into by ATA Education with Kevin Xiaofeng Ma and Haichang Xiong, respectively, with the loan amount of RMB 9 million and RMB 1 million, respectively;
 - Call Option and Cooperation Agreement entered into by and among ATA Education, ATA Intelligent Learning, Kevin Xiaofeng Ma and Haichang Xiong;
 - Equity Interest Pledge Agreements entered into by ATA Education with Kevin Xiaofeng Ma and Haichang Xiong, respectively;
 - Exclusive Technical Consulting and Services Agreement entered into by and between ATA Education and ATA Intelligent Learning; and
 - Powers of Attorney provided by Kevin Xiaofeng Ma and Haichang Xiong to ATA Education, respectively.The agreements listed above are collectively referred to as the "20180315 ATA Intelligent Learning VIE Agreements".
- 2) The parties have entered into "Supplemental Agreement to ATA Intelligent Learning VIE Agreements" with respect to the increase of registered capital of ATA Intelligent Learning. Due to business development needs, ATA Education intends to further increase the registered capital of ATA Intelligent Learning.

Therefore, the parties hereby enter into this supplemental agreement II with the terms as below:

1. The registered capital of ATA Intelligent Learning shall increase to RMB 50 million.
 2. The total loan limit amount that ATA Education provides to Kevin Xiaofeng Ma shall increase
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to RMB 45 million, and the total loan limit amount that ATA Education provides to Haichang Xiong shall increase to RMB 5 million.

3. The provision of the loans by ATA Education to Ma Xiaofeng and Xiong Haichang and the corresponding payments by Ma Xiaofeng and Xiong Haichang of the registered capital of ATA Intelligent Learning could be implemented in batches as decided by ATA Education according to the business development needs of ATA Intelligent Learning.
4. The other terms of the 20180315 ATA Intelligent Learning VIE Agreements shall remain unchanged and apply to the increased loan amount under this supplemental agreement II.
5. This supplemental agreement II and the 20180315 ATA Intelligent Learning VIE Agreements shall complement each other, and in case there is any conflict, this supplement agreement II shall prevail.
6. This supplemental agreement II is effective on the date first above written after execution by the parties. This supplemental agreement shall be executed in four counterparts of the same legal effect with each party holding one counterpart.

(THE FOLLOWING SPACE IS INTENTIONALLY LEFT BLANK)

Signature Page to Supplemental Agreement II to ATA Intelligent Learning VIE Agreements

ATA Education Technology (Beijing) Limited

(Seal)

ATA Intelligent Learning (Beijing) Technology Limited

(Seal)

Kevin Xiaofeng Ma

/s/ Kevin Xiaofeng Ma

Haichang Xiong

/s/ Haichang Xiong

Clarification Letter

To: Arts Consulting Limited, Zhang Jun and Deng Rui

Whereas, a consent letter (the "Consent Letter") with respect to the equity transfer agreement (the "Equity Transfer Agreement") entered into by and among ATA Creativity Global ("AACG"), Arts Consulting Limited, ACG International Group Limited, Beijing Huanqiyimeng Education Consultation Corp., Zhang Jun and Deng Rui, has been executed by Arts Consulting Limited, Zhang Jun and Deng Rui on August 6, 2019 (the "Consent Letter Date")

Whereas, pursuant to the terms of the Consent Letter, Zhang Jun and Deng Rui agreed to be employed by AACG or its affiliated parties for three (3) years from the Closing Date (as defined in the Equity Transfer Agreement), and the violation of such undertaking will result in the liability of breach of contract, as well as trigger the arrangement of shares return and other relevant arrangement under the Consent Letter.

ATA Creativity Global hereby clarifies that, in case Zhang Jun and/or Deng Rui violate the above undertaking, the related arrangement of above shares return shall not be triggered retroactively from the Consent Letter Date, but the other terms of the Consent Letter shall remain in effect and valid.

ATA Creativity Global

Signed /s/Ma Xiaofeng

December 30, 2019

List of Subsidiaries**Subsidiaries:**

- ATA Testing Authority (Holdings) Limited, incorporated in the British Virgin Islands
- ATA Education Technology (Beijing) Limited (formerly known as “ATA Testing Authority (Beijing) Limited”), incorporated in the People’s Republic of China
- Xing Wei Institute (Hong Kong) Limited, incorporated in Hong Kong
- ACG International Group Limited, incorporated in the British Virgin Islands
- Beijing Huanquiyimeng Education Consultation Corp., incorporated in the People’s Republic of China
- Beijing Miusi Education Co., Ltd., incorporated in the People’s Republic of China
- Muhua Shangce Learning Data & Technology (Beijing) Limited (formerly known as “ATA Learning Data & Technology (Beijing) Limited”), incorporated in the People’s Republic of China

Consolidated Variable Interest Entity:

- ATA Intelligent Learning (Beijing) Technology Limited, incorporated in the People’s Republic of China

Filing date: April 28, 2020

Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kevin Xiaofeng Ma, certify that:

1. I have reviewed this annual report on Form 20-F of ATA Creativity Global (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 28, 2020

By: /s/Kevin Xiaofeng Ma
Name: Kevin Xiaofeng Ma
Title: Chief Executive Officer

Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Amy Tung, certify that:

1. I have reviewed this annual report on Form 20-F of ATA Creativity Global (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 28, 2020

By: /s/Amy Tung
Name: Amy Tung
Title: Chief Financial Officer

**Certification by the Chief Executive Officer Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Kevin Xiaofeng Ma, Chief Executive Officer of ATA Creativity Global (the "Company"), hereby certify, to the best of my knowledge, that the Company's annual report on Form 20-F for the year ended December 31, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Date: April 28, 2020

By: /s/Kevin Xiaofeng Ma

Name: Kevin Xiaofeng Ma

Title: Chief Executive Officer

**Certification by the Chief Financial Officer Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Amy Tung, Chief Financial Officer of ATA Creativity Global (the "Company"), hereby certify, to the best of my knowledge, that the Company's annual report on Form 20-F for the year ended December 31, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Date: April 28, 2020

By: /s/Amy Tung
Name: Amy Tung
Title: Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

The Board of Directors
ATA Creativity Global:

We consent to the incorporation by reference in the registration statement (No. 333-231087) on Form S-8 of ATA Creativity Global of our report dated April 28, 2020, with respect to the consolidated balance sheets of ATA Creativity Global as of December 31, 2018 and 2019, and the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for nine-month period ended December 31, 2017, and each of the two years ended December 31, 2019, and the related notes, which report appears in the December 31, 2019 annual report on Form 20-F of ATA Creativity Global.

Our report refers to a change in the method of accounting for leases in 2019.

/s/ KPMG Huazhen LLP

Beijing China
April 28, 2020

JINCHENG TONGDA & NEAL

10th Floor, China World Tower A, No. 1 Jianguo Menwai Avenue,

Chaoyang District, Beijing, 100004, PRC
Tel: (8610) 5706 8585; Fax: (8610) 8515 0267

April 28, 2020
ATA Creativity Global
1/F East Gate, Bldg. No.2, Jian Wai Soho
No.39 Dong San Huan Zhong Road,
Chao Yang District, Beijing, 100022

Ladies and Gentlemen:

We have acted as legal advisors as to the laws of the People's Republic of China to ATA Creativity Global (the "Company"), in connection with the filing by the Company with the United States Securities and Exchange Commission of an annual report on Form 20-F for the fiscal year ended December 31, 2019.

We hereby consent to the use of our name under "Item 3. Key Information — D. Risk Factors", "Item 4. Information on the Company — A. History and Development of the Company" and "Item 8. Financial Information — A. Consolidated statements and other financial information" in the Company's annual report on Form 20-F for the fiscal year ended December 31, 2019.

Yours sincerely,

/s/Peng Jun

Peng Jun

Partner

Jincheng Tongda & Neal

ATA Creativity Global
1/F East Gate, Bldg. No.2, Jian Wai Soho
No.39 Dong San Huan Zhong Road,
Chao Yang District, Beijing, 100022

Re: ATA Creativity Global

April 28, 2020

Dear Sirs,

We are qualified lawyers of the People's Republic of China (the "**PRC**"), for the purpose of this legal opinion (the "**Opinion**"), excluding the Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan), and as such are qualified to issue legal opinions on the PRC laws, regulations or rules.

We are acting as the PRC counsel for ATA Creativity Global, an exempted company incorporated in the Cayman Islands with limited liability (the "**Company**"), in connection with the filing of its annual report on Form 20-F (the "**Annual Report**") for the fiscal year ended December 31, 2019 with the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

In rendering this Opinion, we have examined the originals or copies certified or otherwise identified to our satisfaction, of documents provided to us by the Company and such other documents, corporate records, certificates issued by Governmental Agencies (as defined below) in the PRC, by officers of the Company, and/or by the Group Companies (as defined below) and other instruments (the "**Documents**") as we have considered necessary, advisable or desirable for the purpose of rendering this Opinion. Where certain facts were not or may not be possible to be independently established by us, we have relied upon certificates or statements or representations issued or made by relevant Governmental Agencies of the PRC and the appropriate representatives of the Company and/or the PRC Companies with the proper powers and functions.

In our examination of the Documents and for purpose of rendering this Opinion, we have assumed without further inquiry: (A) the genuineness of all signatures, seals and chops, and the authenticity of all documents submitted to us as originals and the conformity with authentic original documents submitted to us as copies; (B) the Documents as submitted to us remain in full force and effect up to the date of this Opinion, and have not been revoked, amended, revised, modified or supplemented except as otherwise indicated in such Documents; (C) the truthfulness, accuracy, fairness and completeness of Documents as well as all factual statements in the Documents; (D) that all information provided to us by the Company in response to our inquiries for the purpose of this Opinion is true, accurate, complete and not misleading and that the Company has not withheld anything that, if disclosed to us, would reasonably cause us to alter this Opinion in whole or in part; (E) other than in relation to the Control Agreements (as defined below), that all parties have the requisite power and authority to enter into, execute, deliver and perform the Documents to which they are parties; (F) other than in relation to the Control Agreements, that all parties have duly executed, delivered, performed, and will duly perform their obligations under the Documents to which they are parties; and (G) other than in relation to the Control Agreements, that all Documents are legal, valid, binding and enforceable under all such laws as govern or relate to them other than PRC Laws (as defined below).

This Opinion is rendered on the basis of the PRC Laws effective as at the date hereof. We do not purport to be an expert on, generally familiar with, or qualified to express legal opinions based on, any laws other than the PRC Laws. Accordingly, we express no opinion on the laws of any jurisdiction other than the PRC. Furthermore, there is no guarantee that any such PRC Laws will not be changed, amended or replaced in the immediate future or in the longer term with or without retrospective effect.

The following terms as used in this Opinion are defined as follows:

“ATA Education”	means ATA Education Technology (Beijing) Limited (formerly named as ATA Testing Authority (Beijing) Limited), a company incorporated under the PRC Laws of which 100% equity interest is indirectly owned by the Company.
“BVI Subsidiaries”	means ATA Testing Authority (Holdings) Limited, a company incorporated under the laws of British Virgin Islands of which 100% equity interest is directly owned by the Company; and ACG International Group Limited, a company incorporated under the laws of British Virgin Islands of which 100% equity interest is directly owned by the Company.
“Control Agreements”	means the agreements set forth in Item 4.A of the Annual Report headed “History and Development of the Company — Contractual Arrangements with ATA Intelligent Learning” and as listed in Schedule I of this Opinion.

“Group Companies”	means the Company, BVI Subsidiaries, Xing Wei Institute (HongKong) Limited, the PRC Companies, Muhua Shangce Learning Data & Technology (Beijing) Limited, Beijing Huanqiyimeng Education Consultation Corp., Beijing Miusi Education Co., Ltd. and any other entities that are controlled directly or indirectly by any of the foregoing.
“Government Agency”	means any competent government authorities, courts, arbitration commissions or regulatory bodies of the PRC.
“Governmental Authorization”	means any approval, consent, permit, authorization, filing, registration, exemption, waiver, endorsement, annual inspection, qualification and license required by the applicable PRC Laws to be obtained from any Government Agency.
“Material Adverse Effect”	means any event, circumstance, condition, occurrence or situation or any combination of the foregoing that has or could be reasonably expected to have a material and adverse effect upon the conditions (financial or otherwise), business, properties or results of operations or prospects of the Group Companies taken as a whole.
“Initial Public Offering”	means the initial public offering of American depository shares representing the Company’s ordinary shares as described in the prospectus for such offering dated January 28, 2008.
“PRC Laws”	means any and all laws, regulations, statutes, rules, decrees, notices and supreme court’s judicial interpretations currently in force and publicly available in the PRC as of the date hereof.
“PRC Companies”	means the PRC Wholly Owned Subsidiary, and the PRC Subsidiary.
“PRC Subsidiary”	means ATA Intelligent Learning (Beijing) Technology Limited (ATA Intelligent Learning), a company incorporated under the PRC Laws of which 90% of the equity interest is directly owned by Kevin Xiaofeng Ma and 10% of the equity interest is directly owned by Haichang Xiong.
“PRC Wholly Owned Subsidiary”	means ATA Education.

Based on the foregoing, after our due inquiry, we are of the opinion that:

- (i) *Corporate Structure.* The descriptions of the corporate structure of the PRC Companies and the Control Agreements set forth in the “Risk Factors,” “History and Development of the Company— Contractual Arrangements with ATA Intelligent Learning” and “Related Party Transactions” sections of the Annual Report are correct and accurate in all material respects and nothing has been omitted from such descriptions which would make the same misleading in any material respect.

We are of the opinion that, except as disclosed in the Annual Report, (A) the ownership structure of the PRC Companies as described in the Annual Report under the headings “Risk Factors,” “History and Development of the Company— Contractual Arrangements with ATA Intelligent Learning” and “Related Party Transactions” is and has been in compliance with all current PRC Laws; (B) except for the Equity Interest Pledge right under the Equity Interest Pledge Agreements listed in Schedule I (2) and (3) of this Opinion, each of the Control Agreements has been duly executed and delivered by each of the parties thereto and constitutes its or his binding obligations. Once the PRC Companies finish the registration of the Pledge with the AIC in accordance with Section 3.1 of Equity Interest Pledge Agreements, the above mentioned Equity Interest Pledge right will become effective; and (C) the contractual arrangements among ATA Education, the PRC Subsidiary and the shareholders of the PRC Subsidiary, established by the Control Agreements, individually and as a whole, are valid, legally binding and enforceable, and will not result in any violation of the PRC Laws currently in effect.

- (ii) *M&A Rules.* On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission (the “CSRC”), and the State Administration of Foreign Exchange of the PRC, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “M&A Rules”), which became effective on September 8, 2006 and were amended on June 22, 2009. The M&A Rules purport, among other things, to require offshore special purpose vehicles (the “SPVs”) formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, pursuant to the M&A Rules and other PRC Laws and regulations, the CSRC, on its official website, promulgated relevant guidance with respect to the issues of listing and trading of PRC domestic enterprises’ securities on overseas stock exchanges, including a list of application materials with respect to the listing on overseas stock exchanges by SPVs.
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We are of the opinion that as of the date hereof, the Company was not and is not required under the M&A Rules and other relevant PRC Laws to obtain the approval of the CSRC for the issuance and sale of the American depository shares representing the Company's common shares or the listing of the Company's American depository shares on Nasdaq in connection with the Initial Public Offering, because (1) the Company established the PRC Wholly Owned Subsidiary as a foreign-invested enterprise by means of direct investment and not through a merger or acquisition of the equity or assets of a "PRC domestic company" as such term is defined under the M&A Rules, and (2) there is no provision in the M&A Rules that clearly classifies contractual arrangements described under "History and Development of the Company— Contractual Arrangements with ATA Intelligent Learning" and "Related Party Transactions" sections of the Annual Report as the type of merger and acquisition transaction falling under the M&A Rules.

This Opinion is rendered to you and is intended to be used in the context which is specifically referred to herein and solely for the benefit of the Company in connection with its Annual Report filing and each paragraph should be looked at as a whole and no part should be extracted and referred to independently.

We hereby consent to the filing of this Opinion with the U.S. Securities and Exchange Commission as an exhibit to the Annual Report and to the use of and references to our name and this Opinion and its contents under the sections headed "Risk Factors", "Regulation", "History and Development of the Company", "Consolidated statements and other financial information" and other sections of the Annual Report.

Yours faithfully,

/s/Jincheng Tongda & Neal Law Firm
Jincheng Tongda & Neal Law Firm

SCHEDULE I

List of Control Agreements

- (1) Exclusive Technical Consulting and Services Agreement, dated as of March 15, 2018, among ATA Intelligent Learning (Beijing) Technology Limited and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
 - (2) Equity Interest Pledge Agreement, dated as of March 15, 2018, among ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited) and Kevin Xiaofeng Ma.
 - (3) Equity Interest Pledge Agreement, dated as of March 15, 2018, among ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited) and Haichang Xiong.
 - (4) Loan Agreement, dated as of March 15, 2018, between ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited) and Kevin Xiaofeng Ma.
 - (5) Loan Agreement, dated as of March 15, 2018, between ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited) and Haichang Xiong.
 - (6) Call Option and Cooperation Agreement, dated as of March 15, 2018, among ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited), Kevin Xiaofeng Ma, Haichang Xiong, and ATA Intelligent Learning (Beijing) Technology Limited.
 - (7) Power of Attorney, dated as of March 15, 2018, between Kevin Xiaofeng Ma and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
 - (8) Power of Attorney, dated as of March 15, 2018, between Haichang Xiong and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
 - (9) Payment Instructions for the Loan Agreement, dated as of April 3, 2018, between Kevin Xiaofeng Ma and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
 - (10) Payment Instructions for the Loan Agreement, dated as of April 3, 2018, between Haichang Xiong and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
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- (11) Supplemental Agreement to ATA Intelligent Learning VIE Agreements, dated as of March 19, 2019, among ATA Education Technology (Beijing) Limited (formerly named as ATA Testing Authority (Beijing) Limited), Kevin Xiaofeng Ma, Haichang Xiong, and ATA Intelligent Learning (Beijing) Technology Limited.
- (12) Supplemental Agreement II to ATA Intelligent Learning VIE Agreements, dated as of April 20, 2019, among ATA Education Technology (Beijing) Limited (formerly named as ATA Testing Authority (Beijing) Limited), Kevin Xiaofeng Ma, Haichang Xiong, and ATA Intelligent Learning (Beijing) Technology Limited.