

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

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**FORM 20-F**

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(Mark One)

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

OR

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

For the fiscal year ended September 30, 2020

OR

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

OR

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

Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34122

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**China Distance Education Holdings Limited**

(Exact name of Registrant as specified in its charter)

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**Not applicable**

(Translation of Registrant's name into English)

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**Cayman Islands**

(Jurisdiction of incorporation or organization)

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

Mr. Zhengdong Zhu, Chief Executive Officer  
c/o 18th Floor, Xueyuan International Tower  
1 Zhichun Road, Haidian District  
Beijing 100083, People's Republic of China  
Tel: +86 10-8231-9999

E-mail: IR@cdeledu.com

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

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

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

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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

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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: 135,320,433 ordinary shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>

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

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

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

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

U.S. GAAP <input checked="" type="checkbox"/>	International Financial Reporting Standards as issued by the International Accounting Standards Board <input type="checkbox"/>	Other <input type="checkbox"/>
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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

## TABLE OF CONTENTS

<u>INTRODUCTION</u>	1
<u>FORWARD-LOOKING STATEMENTS</u>	1
<u>PART I</u>	2
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	3
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	3
<u>ITEM 3. KEY INFORMATION</u>	3
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	49
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	89
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	89
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	121
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	134
<u>ITEM 8. FINANCIAL INFORMATION</u>	135
<u>ITEM 9. THE OFFER AND LISTING</u>	136
<u>ITEM 10. ADDITIONAL INFORMATION</u>	136
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	144
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	145
<u>PART II</u>	146
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	146
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	146
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	147
<u>ITEM 16. [RESERVED]</u>	149
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	149
<u>ITEM 16B. CODE OF ETHICS</u>	149
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	149
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	149
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	150
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	150
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	150
<u>ITEM 16H. MINE SAFETY DISCLOSURE</u>	150
<u>PART III</u>	150
<u>ITEM 17. FINANCIAL STATEMENTS</u>	150
<u>ITEM 18. FINANCIAL STATEMENTS</u>	150
<u>ITEM 19. EXHIBITS</u>	151

## INTRODUCTION

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

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

This annual report on Form 20-F includes our audited consolidated statements of operation data for the fiscal years ended September 30, 2018, 2019 and 2020 and audited consolidated balance sheet data as of September 30, 2019 and 2020.

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

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

## FORWARD-LOOKING STATEMENTS

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

- our goals and growth strategies;
- our future prospects and market acceptance of our courses and other products and services;
- our future business development and results of operations;
- projected revenues, profits, earnings and other estimated financial information;
- projected enrollment numbers;

- our plans to expand and enhance our courses and other products and services;
- the anticipated benefits of acquisition of Jiangsu Zhengbao Asset Financial Advisory Co., Ltd. (formerly known as Nanjing Xin Asset Financial Advisory Co., Ltd.), or Jiangsu Asset, and Beijing Ruida Chengtai Education Technology Co., Ltd., or Beijing Ruida, and other strategic investments;
- the anticipated benefits of the disposal of Beijing Champion Tax Management and Advisory Co., Ltd., or Champion Tax Advisory, or “Tax School Program” (now known as Beijing Champion Yuanjian Education Technology Co., Ltd., or Champion Yuanjian);
- competition in the education and test preparation markets;
- Chinese laws, regulations and policies, including those applicable to the Internet, Internet content providers, the education and telecommunications industries, mergers and acquisitions, taxation and foreign exchange;
- the impact of the outbreak of the coronavirus disease (“COVID-19”); and
- the impact of the completion or termination of the currently pending going-private transaction with respect to the Company described in “Item 4.A. History and Development of the Company — Proposed Going-private Transaction.”

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

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

#### **Market Data and Forecasts**

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

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

## PART I

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

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Consolidated Financial Data

The selected consolidated statements of operations data for the fiscal years ended September 30, 2018, 2019 and 2020 and the selected consolidated balance sheets data as of September 30, 2019 and 2020 are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes. Our selected consolidated statements of operations data for the years ended September 30, 2016 and 2017 and the selected consolidated balance sheets data as of September 30, 2016, 2017 and 2018, are derived from our audited consolidated financial statements, which are not included in this annual report. The following information should also be read in conjunction with “Item 5. Operating and Financial Review and Prospects.” Our audited consolidated financial statements are prepared in accordance with U.S. GAAP. Our historical results for any prior period are not necessarily indicative of results to be expected for any future period.

	Years Ended September 30,				
	2016	2017	2018	2019	2020
(In thousands of \$, except share, per share and per ADS data)					
<b>Selected Consolidated Statement of Operations Data:</b>					
<b>Net revenues:</b>					
Online education services	93,923	95,503	117,026	145,917	159,338
Books and reference materials	8,067	8,980	10,213	27,372	22,061
Others	15,558	26,505	39,429	38,533	28,159
Total net revenues	117,548	130,988	166,668	211,822	209,558
<b>Cost of sales:</b>					
Cost of services and others <sup>(5)</sup>	(43,796)	(50,540)	(78,936)	(85,252)	(81,976)
Cost of tangible goods sold	(4,538)	(6,872)	(8,947)	(19,489)	(19,622)
Total cost of sales	(48,334)	(57,412)	(87,883)	(104,741)	(101,598)
<b>Gross profit</b>	69,214	73,576	78,785	107,081	107,960
<b>Operating expenses:</b>					
Selling expenses <sup>(5)</sup>	(24,517)	(34,910)	(44,717)	(61,460)	(69,848)
General and administrative expenses <sup>(5)</sup>	(16,778)	(19,468)	(21,253)	(24,919)	(25,478)
Impairment of goodwill	—	—	—	(1,517)	—
Total operating expenses	(41,295)	(54,378)	(65,970)	(87,896)	(95,326)
Change in fair value in connection with business combination	—	—	84	695	—
Other operating income	806	1,912	3,051	2,968	6,155
<b>Operating income</b>	28,725	21,110	15,950	22,848	18,789
Interest income (expense), net	1,465	482	(809)	(612)	1,534
Exchange gain (loss)	2,462	128	2,476	3,296	(5,261)
Impairment loss from long-term investments	—	(679)	(2,835)	(6,920)	(910)
Gain from disposal of an investment	—	—	—	318	—
Gain from deconsolidation of a subsidiary	—	—	—	6,869	—
<b>Income before income taxes</b>	32,652	21,041	14,782	25,799	14,152
Income tax expense	(6,150)	(4,620)	(2,307)	(8,121)	(5,460)
Loss from equity method investments	(91)	(153)	(172)	(1,484)	(555)
Net income	26,411	16,268	12,303	16,194	8,137
Less: Net income (loss) attributable to noncontrolling interest	121	1,333	677	(5,060)	(2,293)
<b>Net income attributable to China Distance Education Holdings Limited</b>	26,290	14,935	11,626	21,254	10,430
<b>Net income per ordinary share:</b>					
<b>Net income attributable to China Distance Education Holdings Limited shareholders</b>					
Basic	0.19	0.11	0.09	0.16	0.08
Diluted	0.19	0.11	0.09	0.16	0.08
<b>Dividends declared per share</b>	0.225	0.1125	0.1125	—	0.145

	Years Ended September 30,				
	2016	2017	2018	2019	2020
(In thousands of \$, except share, per share and per ADS data)					
<b>Net income per ADS:</b>					
<b>Net income attributable to China Distance Education Holdings Limited shareholders<sup>(1)</sup></b>					
Basic	0.77	0.45	0.35	0.64	0.31
Diluted	0.76	0.45	0.35	0.64	0.31
<b>Weighted average shares used in calculating net income per share:</b>					
Basic	136,497,929	131,432,211	132,363,620	133,060,900	133,984,929
Diluted	138,465,944	133,203,255	133,117,155	134,138,117	135,232,224
<b>Other Consolidated Financial Data:</b>					
Gross Margin <sup>(2)</sup>	58.9%	56.2%	47.3%	50.6%	51.5%
Operating Margin <sup>(3)</sup>	24.4%	16.1%	9.6%	10.8%	9.0%
Net Margin <sup>(4)</sup>	22.4%	11.4%	7.0%	10.0%	5.0%

(1) One ADS represents four ordinary shares.

(2) Gross margin represents gross profit as a percentage of net revenues.

(3) Operating margin represents operating income as a percentage of net revenues.

(4) Net margin represents net income attributable to CDEL as a percentage of net revenues.

(5) Includes the following amounts of share-based compensation expenses for the periods indicated:

	Years Ended September 30,				
	2016	2017	2018	2019	2020
(in thousands of \$)					
Cost of services and others	162	164	161	23	139
Selling expenses	84	85	80	10	58
General and administrative expenses	1,769	1,862	2,065	1,972	2,421
<b>Total share-based compensation expenses</b>	<b>2,015</b>	<b>2,111</b>	<b>2,306</b>	<b>2,005</b>	<b>2,618</b>



	As of September 30,				
	2016	2017	2018	2019	2020
	(in thousands of \$)				
<b>Selected Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	53,677	60,526	30,826	67,977	80,056
Term deposits	—	—	—	—	13,440
Restricted cash – current	15,547	34,855	51,736	38,358	4,212
Restricted cash – non-current	—	—	—	—	16,849
Short-term investments	1,278	5,261	17,073	22,118	20,343
Long-term investments	3,079	43,631	33,837	25,379	26,324
Total assets	148,920	224,551	328,925	355,350	398,139
Short-term bank borrowings	15,551	29,965	50,975	38,502	4,012
Deferred revenue – current	36,332	50,506	78,194	94,202	105,953
Refundable fees – current	862	1,074	13,837	435	1,729
Deferred revenue – non-current	—	—	—	33,564	33,928
Refundable fees – non-current	—	—	—	2,440	2,602
Long-term bank borrowing	—	19,930	12,027	—	16,000
Total liabilities	92,448	151,739	219,160	231,604	271,195
Total China Distance Education Holdings Limited shareholders' equity	45,236	48,783	44,274	72,831	77,975
Total noncontrolling interest	11,236	24,029	65,491	50,915	48,969
Total liabilities and equity	148,920	224,551	328,925	355,350	398,139
Ordinary shares	13	13	13	13	14

### Exchange Rate Information

We use U.S. dollars as our reporting currency in our financial statements and in this annual report. When reporting the operating results and financial position of our PRC subsidiaries and affiliated entities, we use the monthly average exchange rate for the year and the exchange rate at the balance sheet date, respectively, as published by the Federal Reserve Bank of New York. In other parts of this annual report, unless otherwise noted, all translations from Renminbi to U.S. dollars have been made at RMB6.7896 to \$1.00, the noon buying rate in effect as of September 30, 2020 in the City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government restricts or prohibits the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions.

### B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

### D. Risk Factors

#### Summary of Risk Factors

An investment in our ADSs is subject to a number of risks, including risks relating to our business, risks relating to our corporate structure and restrictions on our industry, risks relating to conducting business in China and risks related to our ADSs. The following summarizes some, but not all, of these risks. Please carefully consider all of the information discussed in “Item 3. Key Information—D. Risk Factors” in this annual report for a more thorough description of these and other risks.

#### Risks Relating to Our Business

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

- If we fail to develop and introduce new courses, services and products that meet our target course participants' expectations, or adopt new technologies important to our business, our competitive position and ability to generate revenues may be materially and adversely affected.
- If we fail to maintain and enhance recognition of our brands, we may face difficulty in obtaining new business partners and course participants, and our business reputation and operating results may be harmed.
- Our business could be adversely affected if there are changes in the perceived difficulty, requirements or formats of professional examinations, courses and continuing education in China, or if certain professional qualifications and certificates are cancelled by the government authorities.
- Our business could be adversely affected if there are changes in the timing of release of examination policies.
- Our business is dependent on our lecturers comprised primarily of academics and experienced practitioners within their respective industries who are typically engaged on a part-time contractual basis.
- Our business, financial condition and results of operations have been and are likely to continue to be materially and adversely affected by the outbreak of COVID-19.
- The consummation of the proposed going-private transaction is uncertain, and the announcement and pendency of the transaction could have an adverse effect on our business, results of operations and financial condition.
- Failure to attract and retain qualified personnel and experienced senior management could disrupt our operations and adversely affect our business and competitiveness.
- Our financial performance and prospects could be affected by natural calamities or health epidemics.

***Risks Relating to Our Corporate Structure and Restrictions on Our Industry***

- Substantial uncertainties and restrictions exist with respect to the interpretation and application of PRC laws and regulations relating to the distribution of Internet content in China. If the PRC government finds that the structure we have adopted for our business operations does not comply with PRC laws and regulations, we could be subject to severe penalties, including the shutting down of our websites.
- Our contractual arrangements may be subject to national security review under PRC laws and regulations and, thus, be challenged by relevant regulatory authorities.
- We rely on contractual arrangements with our affiliated PRC entities and their shareholders for our China operations, which may not be as effective in providing operating control as direct ownership.
- New legislation or changes in the PRC regulatory requirements regarding private education may affect our business operations and prospects.
- The shareholders of our affiliated PRC entities may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- We may rely principally on dividends and other distributions on equity paid by our PRC subsidiaries for our cash requirements. Limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely affect our ability to grow, make investments or acquisitions, pay dividends, and otherwise fund and conduct our businesses.

- If any of our affiliated entities fails to obtain and maintain the licenses and approvals required to conduct its internet related business in China, our business, financial condition and results of operations may be materially and adversely affected.
- Any changes in the PRC foreign investment legal regime may materially and adversely affect our operations and the contractual arrangements.

***Risks Relating to Conducting Business in China***

- PRC economic, political and social conditions, as well as changes in any government policies, laws and regulations, could adversely affect the overall economy in China or the prospects of the education market, which in turn could adversely affect our business.
- Evolution of and uncertainties in the interpretation and enforcement of PRC laws and regulations could adversely impact our corporate structure and business and limit the legal protections available to you and us.
- Fluctuations in exchange rates could result in foreign currency exchange losses.
- The discontinuation of any of the preferential tax treatments currently available us could materially increase our tax liabilities.
- The audit reports 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. In addition, various legislative and regulatory developments related to U.S.-listed China-based companies due to lack of PCAOB inspection and other developments may have a material adverse impact on our listing and trading in the U.S. and the trading prices of our ADSs.

***Risks Relating to Our ADSs***

- Stock prices of companies with business operations primarily in China have fluctuated widely in recent years, and the trading prices of our ADSs are likely to be volatile, which could result in substantial losses to investors.
- The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.
- The voting rights of holders of ADSs must be exercised in accordance with the terms of the deposit agreement, 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.
- We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. federal or state laws, holders of ADSs may have less protection of shareholder rights than they would under U.S. federal or state laws.
- Certain judgments obtained against us by our shareholders may not be enforceable.

## **Risks Relating to Our Business**

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

The continued success and growth of our business depend primarily on the number of enrollments in our courses and the amount of course fees that we can charge. This in turn will depend on several factors, including our ability to develop new courses and improve existing courses to respond to changes in market trends and demands of course participants, to effectively market our courses to a broader base of prospective course participants, to train and retain qualified lecturers and tutors, to develop or acquire additional high-quality educational content and to respond to competitive pressures. In addition, the expansion of our courses, services and products in terms of the types of offerings may not succeed due to competition, our failure to effectively market our new courses, services and products or to maintain their quality and consistency, or other factors. Furthermore, we may not be able to develop and offer additional content on commercially reasonable terms and in a timely manner, or at all, to keep pace with changes in market requirements. In December 2018, we decided to dispose of 60% of our interest in the “Tax School Program” to its management team because this business had not yet generated reasonable returns after several years of investments. In addition, the revenue from business start-up training services in fiscal years 2019 and 2020 declined by 39.3% and 21.1% from fiscal years 2018 and 2019, respectively. If we are unable to continue to attract course participants to enroll in our courses, increase enrollments in our relatively new courses, or charge competitive but profitable fees, our revenues may decline and we may be unable to achieve revenue growth or maintain our profitability.

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

Historically, our core business centered on the provision of online professional education and test preparation courses for accounting professionals. We have since expanded our course offerings to target course participants in the healthcare, engineering & construction, law and other industries, as well as other forms of online and offline education. In addition to regular classes, we have also introduced, in the past, “elite” classes and “premium” classes within some of our most popular course offerings to better serve the needs of high-end course participants. The profitability of the elite and premium classes may be subject to risks given that the course participants enjoy refund or discount privileges if certain pre-agreed conditions are met. We also offer business start-up training courses, which are subsidized by the PRC government, the profitability of which may be subject to risks given that the subsidy we are entitled to receive from the government in certain provinces and cities may be reduced if certain stipulated conditions in the government’s subsidy policies are not met. Our acquisition of Xiamen NetinNet Software Co., Ltd., or Xiamen NetinNet in May 2016 further complements our suite of learning solutions for the college market, and enables us to offer comprehensive accounting simulation-based educational content to college students aimed at enriching their learning experience and complementing traditional college teaching methods. In fiscal year 2016, we introduced employment guidance services for accounting professionals which consisted of accounting practical skills training courses and employment guidance services. Our acquisition of Jiangsu Asset in November 2017 further broadens our services to small and medium sized enterprises, or SMEs, by introducing accounting and related advisory services and provides valuable internship opportunities to students in our College Cooperation Program. Our acquisition of Beijing Ruida in July 2018 further strengthens our legal education vertical by adding a leading national legal professional qualification examination preparation business to our portfolio of education services. We intend to continue developing new courses, services and products. The timing of the introduction of new courses, services and products is subject to risks and uncertainties.

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

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

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

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

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

We provide professional education and test preparation courses relating to the accounting, healthcare, engineering & construction, law and other industries. In addition, we also provide online professional continuing education courses mainly relating to the accounting and engineering & construction industries. We have obtained approval and exclusive rights to offer self-taught study process monitoring programs in certain provinces and cities, to allow learners to earn up to 30% of the credits they need to obtain post-secondary self-taught education degrees. If there is any material change to the perceived difficulty, requirements or formats of examinations, courses and continuing education in our course offerings, and if we are unable to modify or supplement our courses or training materials to address these changes in a timely manner, the demand for, and relevance of, our courses and training materials may be adversely affected, which could have an adverse impact on our financial condition and results of operations. For example, the Ministry of Justice of the People’s Republic of China, or the MOJ, published the Implementing Measures for the National Unified Legal Profession Qualification Examination, which became effective on April 28, 2018, pursuant to which China’s national judicial examination was replaced by the national unified legal professional qualification examination, or the Legal Professional Qualification Examination. Under the new exam policy, persons who enrolled in a bachelor’s degree or above from higher education institutions as legal or other majors prior to April 28, 2018 are eligible to register for the Legal Professional Qualification Examination upon completion of such bachelor’s degree or above, similar to the related exam policy in effect prior to April 28, 2018. Persons who enroll in higher education institutions after April 28, 2018 must adhere to the new exam policy in order to register for the Legal Professional Qualification Examination, which stipulates that exam registrants must either have completed (i) a bachelor’s degree or above from a higher education institution with a major in law; (ii) a bachelor’s degree from a higher education institution in any major and a Juris Master or Master of Laws degree or above; or (iii) a bachelor’s degree or above from a higher education institution in any major and three full years of legal working experience. The Legal Professional Qualification Examination shall be held once a year and consists of both an objective test and a subjective test, and only the examinees who have passed the objective test can sit for the subjective test.

In addition, if competent government authorities decide to cancel certain professional qualifications or certificates, our business relating to the relevant course offerings would be materially and adversely affected. For example, starting from late November 2016, the Department of Finance in certain provinces and cities suspended the Accounting Certificate Examination due to the proposed changes to the related examination policy, and such suspension adversely impacted our revenue from Accounting Certificate and accounting continuing education courses in fiscal year 2017. In December 2016, the State Council further cancelled 114 professional licenses. In September 2017, the Ministry of Human Resource and Social Security of PRC issued the Circular on Issuing the Catalog of National Occupational Qualifications and released a catalogue of 140 national occupational qualifications, prohibiting the issuance of certificates and confirmation for unlisted qualifications. In November 2017, the Standing Committee of the National People's Congress ("SCNPC") published the Decision of the SCNPC on Revising the "Accounting Law of the People's Republic of China" and Other Eleven Pieces of Laws, pursuant to which the requirement of holding an Accounting Certificate to be engaged in accounting work was canceled. In conjunction with the cancellation of the Accounting Certificate, the examination policy of Elementary Accounting Professional Qualification Examination ("APQE") was released, stating that candidates possessing a high school diploma or above degree are permitted to take the Elementary APQE instead of holding an Accounting Certificate. If there are any material changes in the professional qualification licensing and identification related to our course offerings, and we are unable to address these changes in a timely manner, our revenue generated from related course offerings may be adversely affected, which could have an adverse impact on our financial condition and results of operations.

***Our business could be adversely affected if there are changes in the timing of release of examination policies.***

We provide test preparation courses for participants of professional qualification examinations. The preparation period for the examination participants may vary due to changes in the timing of release of the related examination policies. For instance, in July 2016, the examination policy of the National Pharmacist Qualification Examination was released almost one month later than the release date in 2015. With the examination date remaining unchanged, the preparation period for participants in the National Pharmacist Qualification Examination was shortened from four months in 2015 to three months in 2016. As a result, the number of enrollments, and therefore, our revenue generated from the related course offerings were adversely affected. If there are any other material changes in the timing of release of examination policies related to our course offerings, which result in shorter preparation periods for examination participants, the demand for such course offerings may be adversely affected, and our financial condition and results of operations could be adversely impacted.

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

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

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

The vast majority of our lecturers are academics from post-secondary educational institutions and experienced practitioners within their respective industries in China who typically work for us on a part-time basis. A small portion of our lecturers are our tutors who remain full-time employees after becoming our lecturers. A significant portion of our legal courses are offered by Beijing Ruida lecturers who are also the founders and shareholders of Beijing Ruida. The popularity and effectiveness of our courses depend, in part, on the teaching ability of these lecturers and their reputation as skilled lecturers. Consequently, our reputation and operating results could be adversely affected if we fail to attract qualified lecturers or to maintain or improve the quality of our lectures. For example, if our lecturers fail to deliver quality lectures as a result of inadequate devotion of their time and energy to our courses or for other reasons, our business may be adversely affected. In addition, as the education industry grows and matures, we may face increasing competition from our competitors for lecturers with good reputations and effective teaching skills, and on whom we rely for delivering quality services and to maintain and promote our leading market position. Additionally, our lecturers may join our competitors or set up competing businesses after they discontinue their relationship with us, which could further adversely affect our operating results. Furthermore, China has promulgated certain regulations in November 2016 prohibiting post-secondary teachers from engaging in part-time jobs without approval from their employers and prohibiting public school teachers working in primary and secondary education institutions from engaging in part-time jobs to provide tutoring services. If our lecturers choose to, or are forced to, discontinue their relationship with us to comply with the relevant regulations, we will need to seek new lecturers to replace them. We cannot assure you we will be able to find suitable replacements at a reasonable cost on a timely basis, if at all.

***Our business, financial condition and results of operations have been and are likely to continue to be materially and adversely affected by the outbreak of COVID-19.***

Since the beginning of 2020, there has been an outbreak of COVID-19 in China and other countries, which has adversely affected our business and financial performance. For example, during the onset of the COVID-19 pandemic, in order to support our students across China with high-quality online professional education at a time when offline classes were suspended, we provided free online courses to students in Hubei province, the initial epicenter of the epidemic in China, and significant discounts for certain online exam preparation courses to students outside Hubei. While our socially responsive actions resulted in a surge in enrollment in fiscal year 2020, our cash receipts from online course registration have declined significantly. Also, certain professional certification examinations in accounting, healthcare, engineering & construction, legal and other fields were postponed or suspended due to the COVID-19 pandemic across China. The service periods of the course offerings of these examinations were extended accordingly. As a result of the significant decrease in cash receipts from online course registration and the extension of service periods of our courses, revenue growth from online education services was adversely impacted in fiscal year 2020. Revenues from sale of books and reference materials and other services, including offline training courses and sale of learning simulation software, were also impacted significantly by COVID-19 pandemic.

With the continued sporadic outbreak of COVID-19 in Hebei, Beijing and other locations across China, professional certification examinations may be further postponed or cancelled, which may continue to affect our business operations, financial condition and operating results for fiscal year 2021.

***The consummation of the proposed going-private transaction is uncertain, and the announcement and pendency of the transaction could have an adverse effect on our business, results of operations and financial condition.***

On December 1, 2020, our company entered into a definitive agreement and plan of merger with Champion Distance Education Investments Limited and China Distance Learning Investments Limited in connection with a proposed going-private merger. For more details, see “Item 4.A. History and Development of the Company — Proposed Going-private Transaction.” The merger is subject to a number of customary closing conditions, including the proposed going-private transaction having been authorized and approved by an affirmative vote of shareholders representing at least two-thirds of the voting power of the outstanding ordinary shares entitled to vote present and voting in person or by proxy at an extraordinary general meeting of our shareholders. There can be no assurance that the proposed going-private transaction will be approved or consummated. The process of consummating the proposed going-private transaction or any other significant strategic transaction involving our company could cause disruptions in our business and divert our management’s attention and other resources from day-to-day operations, which could have an adverse effect on our business, results of operations and financial condition. We have incurred, and will continue to incur, significant costs, expenses, and fees for professional services and other transaction costs in connection with the proposed going-private transaction. All the fees and costs will be payable by us even if the transaction is not completed. Also, we may be subject to claims and legal actions arising in connection with the going-private transaction, and such claims and legal actions, with or without merit, may be expensive to defend, may divert our management’s attention and may have an adverse impact on our reputation. Additionally, current and prospective employees and members of management could become uncertain about their future roles with us in the event the going-private transaction is completed. This uncertainty could adversely affect our ability to retain and hire employees and members of management. In addition, the announcement and pendency of the proposed going-private transaction could have an adverse effect on our relationships with customers and third-party service providers. If the proposed going-private transaction is not completed, you will not receive the proposed transaction consideration and the price of our ADSs could decline. Additionally, the ongoing business of our company could be adversely affected and, without realizing the benefits of having completed the going-private transaction, our company will be subject to a number of risks, including payment of certain costs relating to the proposed going-private transaction, even if the proposed going-private transaction is not completed, such as legal, financial advisor and printing fees.

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

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

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

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



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

As of December 31, 2020, our co-founder and chief executive officer, Mr. Zhu, beneficially owned 53,119,017 ordinary shares or approximately 38.84% of our outstanding ordinary shares. Mr. Zhu has, and may continue to have, significant influence in determining the outcome of most corporate transactions or other matters submitted to our shareholders for approval, including mergers, consolidations, restructurings, the proposed going-private transaction and the sale of all or substantially all of our assets, businesses, election of directors and other significant corporate actions. He may not act in the best interests of our minority shareholders. In addition, without the consent of Mr. Zhu, we could be prevented from entering into transactions that could be beneficial to us. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

***Mr. Zhengdong Zhu, our chairman and chief executive officer, beneficially owns a significant percentage of interest in our controlled company, Zhengbao Yucai, and, as a result, he has significantly greater influence over Zhengbao Yucai and its corporate actions relative to us and his interests may not be aligned with our interests.***

As of December 31, 2020, Mr. Zhengdong Zhu beneficially holds 38.4% equity interest in Zhengbao Yucai and thus Mr. Zhu has significant influence in determining the outcome of most corporate transactions or other matters submitted to shareholders of Zhengbao Yucai for approval, including mergers, consolidations, restructurings and the sale of all or substantially all of its assets, businesses, election of directors and other significant corporate actions.

The interests of Mr. Zhu as a shareholder of Zhengbao Yucai may not align with our interests. Although Mr. Zhu has entered into an acting-in-concert agreement with one of our wholly-owned subsidiaries, requiring him to vote his shares as to key matters submitted to the shareholders of Zhengbao Yucai for approval in accordance with the instructions of such subsidiary, we cannot assure you that when conflicts arise, Mr. Zhu will act in our best interests or such conflicts will be resolved in our favor.

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

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

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

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

We have experienced seasonality in revenues from online education services primarily due to seasonal changes in course enrollments and the timing of various exams. As the majority of our course participants take courses relating to the main professional exams, which are typically held in May, September and October, we typically experience higher revenues from online education services in the second half of each fiscal year. Additionally, as the majority of our course participants for professional continuing education courses take such courses in the second half of the calendar year, we typically experience higher professional continuing education revenues during the quarters ending September 30 and December 31 of each fiscal year. Xiamen NetinNet typically experiences higher revenues from the sale of learning simulation software during the quarters ending September 30 and December 31 of each fiscal year. As the objective and subjective tests of Legal Professional Qualification Examination are typically held in September and October, respectively, Beijing Ruida typically experiences higher revenues from legal education services and products in the second half of each fiscal year. As a result, we historically have generated higher revenue in the second half of each fiscal year. Furthermore, our revenues may be significantly affected by the timing of various exams. For example, the objective and subjective tests of 2020 Legal Professional Qualification Exam, which originally were to be held in September and October, respectively, were postponed to October and November 2020, respectively, due to the impact of COVID-19. As a result, deferred revenue relating to the 2020 Legal Professional Qualification Exam was recognized over a longer period of time than the 2019 Legal Professional Qualification Exam. In addition, as the mix of exams and course subjects changes over time, we expect to continue experiencing seasonality based on the timing of various exams. These fluctuations could result in volatility and adversely affect the price of our ADSs. As our revenues grow, these seasonal fluctuations may become even more pronounced. For more details, see “Item 4.B. Business Overview — Seasonality.”

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

Labor costs in China have risen in recent years as a result of social development and increasing inflation in China. According to the National Bureau of Statistics of China, the consumer price index in China increased by 2.1% and 2.9% in 2018 and 2019, respectively. The average wage level for our employees has also increased in recent years. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and childbearing insurance to designated government agencies for the benefit of our employees. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our course participants by increasing prices for our services or improving the utilization of our teachers and our staff, our profitability and results of operations may be materially and adversely affected. Furthermore, the PRC government has promulgated new laws and regulations to enhance labor protection in recent years, such as the Labor Contract Law and the Social Insurance Law. As the interpretation and implementation of these new laws and regulations are still evolving, our employment practice may not at all times be deemed in compliance with the new laws and regulations. If we are subject to penalties or incur significant liabilities in connection with labor disputes or investigations, our business and profitability may be adversely affected.

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

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

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

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

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

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

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

***Failure of information security and privacy concerns could subject us to penalties, damage our reputation and brand, and harm our business and results of operations.***

The internet industry is facing significant challenges regarding information security and privacy, including the storage, transmission and sharing of confidential information. We transmit and store over our systems confidential and private information of our course participants such as personal information, including names, identity card numbers, user IDs and passwords, telephone numbers and correspondence addresses, and payment or transaction related information.

We are required by PRC law to ensure the confidentiality, integrity, availability and authenticity of the information of our course participants, which is also essential to maintain their confidence in our online products and services. We have deployed hardware-software combined measures to protect information security. However, advances in technology, increased level of expertise of hackers, new discoveries in the field of cryptography or others could still result in a compromise or breach of the measures that we use. On December 28, 2012, SCNPC promulgated the Decision to Strengthen the Protection of Internet Information, or the Information Protection Decision, to strengthen the protection of personal information on the Internet. The Information Protection Decision provides that Internet content providers must expressly inform their users of the purpose, manner to collect and use the users' personal information and the scope of the information to be collected and used by the provider. In addition, Internet content providers can collect and use the user's personal information only with the consent of users and only within the scope of such consent. On July 16, 2013, China's Ministry of Industry and Information Technology, or MIIT, promulgated the Provisions on the Protection of Personal Information of Telecommunication and Internet Users, which defines "Personal Information" as the information that can be used individually or in combination with other information to identify the users, including but not limited to the name, birth date, ID No., address, telephone number and account number and the information about when and where the user uses such telecommunication and internet service. On November 7, 2016, the SCNPC promulgated the PRC Cyber Security Law, which took effect on June 1, 2017. 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 order 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 identity; localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within the PRC; and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes. However, the effect of these laws on curbing hacking and other illegal online activities still remains to be seen. Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. If we are unable to protect our systems, hence the information stored in our systems, from unauthorized access, use, disclosure, disruption, modification or destruction, such problems or security breaches could cause loss or give rise to our liabilities to the owners of confidential information, such as our course participants; subject us to penalties imposed by administrative authorities; and disrupt our operations. In addition, complying with various laws and regulations could cause us to incur substantial costs or require us to change our business practices, including our data practices, in a manner adverse to our business.

Furthermore, course participants and others may have concerns about whether our products, services or processes could compromise the privacy of users and others. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy related matters, and any negative publicity on our information safety or privacy protection mechanism and policy, even if unfounded, could damage our reputation and brand and adversely affect our business and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

We adopted our Share Incentive Plan in April 2008, which expired in April 2018, or the Prior Plan, under which we had granted options for the purchase of a total of 11,045,500 ordinary shares to selected officers, employees, and lecturers. We adopted in July 2008, and amended and restated in February 2009, May 2012, and November 2017, respectively, our 2008 Performance Incentive Plan, or the New Plan, under which we reserved a maximum number of 34,263,934 ordinary shares as of September 30, 2020, plus an automatic annual adjustment. Pursuant to the New Plan, we had granted options for the purchase of a total of 5,962,500 ordinary shares, and issued 3,957,971 nonvested shares, to selected directors, officers and employees as of September 30, 2020. In addition, we have reduced the exercise price of certain options under our Prior and New Plans in the past. See “Item 6.B. Directors, Senior Management and Employees — Compensation — Share Options, Nonvested Shares and Share Incentive Plan.” In connection with the share options we granted and nonvested shares we issued, we incurred \$2.3 million, \$2.0 million and \$2.6 million of share-based compensation expenses in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. The expenses associated with options granted and nonvested shares issued under the share incentive plans may continue to impact our future results of operations. In addition, if we grant additional options, nonvested shares and other equity incentives in the future under our current or future share incentive plans, or modify the terms of existing share options and nonvested shares, we could further incur significant share-based compensation expenses, or experience a reduction in our net income. Such actions could also result in dilution to our shareholders.

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

We believe that our current cash and cash equivalents and anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures in the normal course of business for at least the next 12 months. We do, however, expect to spend money on the further development of our “Chinaacc” and “med66.com” brands and other brands in the disciplines for which we offer courses, and strategic acquisition and investment opportunities.

In addition, we may require additional sources of liquidity in the event of changes in business conditions or other future developments. Factors affecting our sources of liquidity include, for example, mergers and acquisitions, restructurings, the currently pending going-private transaction, our sales performance, our ability to control costs and expenses, and our choice of financing arrangements. Any changes in the significant factors affecting our revenues from education services may cause material fluctuations in our cash generated from operations. See “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Overview — Specific Factors Affecting Our Results of Operations” for a description of these significant factors. Changes in working capital, including any significant shortening or lengthening of our accounts receivable cycle or customer prepayment cycles, may also cause fluctuations in our cash generated from operations. If our sources of liquidity are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities to meet our cash needs. The sale of convertible debt securities or additional equity securities could result in dilution to our shareholders. In addition, convertible debt securities would incur significant interest expense. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that restrict our operations. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors’ perception of, and demand for, securities of companies which primarily provide professional education and test preparation courses;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in Internet, educational services and professional training services companies;
- economic, political and other conditions in China; and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition and results of operations.

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

We have historically complemented our organic growth through the selective acquisition of complementary businesses, assets, products or technology, or the formation of joint ventures, and we may continue to do so in the future. For example, in November 2017, we acquired 80% equity interest in Jiangsu Asset, which broadens our services to SMEs by introducing accounting and related advisory services and provides valuable internship opportunities to students in our College Cooperation Program. In September 2017, July 2018 and August 2019, we acquired 40%, 11% and 9% equity interest in Beijing Ruida, respectively, bringing our total equity interest in Beijing Ruida to 60%. The acquisition of Beijing Ruida further strengthens our legal education vertical by adding a leading Legal Professional Qualification Examination preparation business to our portfolio of education services. The identification of suitable acquisition targets or joint venture candidates can be difficult, time consuming and costly, and we may not be able to successfully capitalize on identified opportunities. Consummation of acquisitions and the subsequent integration of new assets and businesses into our own could also be costly and require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results we expect and may even result in us suffering losses. Moreover, completions of acquisitions are typically subject to various approval processes. In addition to possible shareholders’ approval, we may also have to obtain approvals and licenses from the relevant government authorities in the PRC for the acquisitions and to comply with any applicable PRC laws and regulations, which could result in increased costs and delay. Furthermore, acquisitions or joint ventures could result in the use of substantial amounts of cash, potentially dilutive issuances of equity or equity-linked securities or the incurrence of debt, the incurrence of significant goodwill, intangible assets and other long-term assets, impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business, or other charges, any of which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Our business could be materially and adversely affected by natural calamities, such as floods and earthquakes or health epidemics or pandemics such as COVID-19, influenza, severe acute respiratory syndrome or other epidemics or pandemics. Any occurrence of natural calamities, epidemics or pandemics may result in the postponement or rescheduling of examinations, which may in turn have an adverse impact on our revenues and performance. In addition, if our employees are affected by natural calamities or contagious or virulent diseases, we may fail to provide our courses, materials and services in a timely manner, which will have an adverse impact on our financial performance. We have not adopted any written preventive measures or contingency plans to combat any future natural calamities or outbreak of epidemics or pandemics. Any natural calamities or prolonged recurrence of adverse public health developments in China may have a material and adverse effect on our business operations, financial performance and prospects.

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

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

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

We are subject to the reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), has adopted rules requiring every public company to include a report from management on the effectiveness of such companies’ internal control over financial reporting in its annual report, which contains management’s assessment of the effectiveness of the company’s internal control over financial reporting. In addition, an independent registered public accounting firm must issue an attestation report on the effectiveness of the company’s internal control over financial reporting. These requirements apply to our annual report on Form 20-F for the fiscal year ended September 30, 2020.

Our management has concluded that our internal control over financial reporting was effective as of September 30, 2020. Our independent registered public accounting firm has issued an attestation report, which has concluded that we maintained, in all material aspects, effective internal control over financial reporting as of September 30, 2020. See “Item 15. Controls and Procedures.” However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could negatively affect the reliability of our financial information and result in the loss of investors’ confidence in our reported financial information, which in turn could negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.



## **Risks Relating to Our Corporate Structure and Restrictions on Our Industry**

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

Foreign ownership of Internet-based businesses is subject to significant restrictions under current PRC laws and regulations. The PRC government regulates Internet access, the distribution of online information and the conduct of online commerce through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership in PRC companies that provide Internet content distribution services. Specifically, foreign investors are not allowed to own more than 50% equity interest in any entity conducting value-added telecommunications services with a few exceptions in the PRC.

Because we are a Cayman Islands company and we hold the equity interests of our PRC subsidiaries indirectly through China Distance Education Limited, a Hong Kong company, or CDEL Hong Kong, and China Healthcare Education Limited, a Hong Kong company, or China Healthcare Education, our PRC subsidiaries are treated as foreign invested enterprises under PRC laws and regulations. To comply with PRC laws and regulations, we conduct our operations in China through a series of contractual arrangements entered into among CDEL Hong Kong, our three PRC subsidiaries, Beijing Champion Distance Education Technology Co., Ltd., or Champion Technology; Beijing Champion Education Technology Co., Ltd., or Champion Education Technology; and Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd., or Zhongxi Healthcare Education, our affiliated PRC entities, Beijing Champion and Champion Healthcare Education, and their respective shareholders. Each of Beijing Champion and Champion Healthcare Education is a PRC limited liability company 79% owned by Zhengdong Zhu, our chairman and chief executive officer and a major shareholder, and 21% owned by Baohong Yin, our co-founder and deputy chairman, both of whom are PRC citizens. Beijing Champion holds a Telecommunications and Information Services Operating License, or ICP license, issued by the Beijing Telecommunications Administration Bureau, a local branch of MIIT, which allows Beijing Champion to provide Internet content distribution services. Each of Beijing Caikaowang Company Limited, or Caikaowang, Beijing Champion Wangge Education Technology Co., Ltd. or Champion Wangge, Beijing Ruida, Beijing Champion E&C Education Technology Co., Ltd., or Beijing Champion E&C Education, Beijing Champion H&E Technology Co., Ltd., or Beijing Champion H&E, Beijing Champion Self-taught Education Technology Co., Ltd., or Beijing Champion Self-taught Education, holds an ICP license issued by the Beijing Telecommunications Administration Bureau. The ICP licenses and other approvals held by Beijing Champion and its subsidiaries are essential to the operation of our business.

As a result of these contractual arrangements, we control Beijing Champion and its subsidiaries, and Champion Healthcare Education, and accordingly, under U.S. GAAP, we consolidate their operating results in our financial statements. Champion Healthcare Education has not conducted any business since its incorporation. For a description of these contractual arrangements, see “Item 4.C. Information on the Company — Organizational Structure.”

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

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

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

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

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

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

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

***We rely on contractual arrangements with our affiliated PRC entities and their shareholders for our China operations, which may not be as effective in providing operating control as direct ownership. If any of Beijing Champion, Champion Healthcare Education or their shareholders fails to perform its or their obligations under these contractual arrangements, we may have to legally enforce such arrangements and our business, financial condition and results of operations may be materially and adversely affected if these arrangements cannot be enforced.***

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

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

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

***New legislation or changes in the PRC regulatory requirements regarding private education may affect our business operations and prospects.***

The private education industry is subject to regulations in various aspects. Relevant rules and regulations could be amended or updated from time to time to accommodate the development of PRC education, in particular, the private education markets. For instance, the Law for Promoting Private Education of the PRC was promulgated in December 2002, and was amended in June 2013, November 2016 and December 2018 which became effective on December 29, 2018 ("the Amendment"). According to the Amendment, private schools can be established as for-profit private schools or non-profit private schools, with the exception of schools that provide compulsory education, which can only be established as non-profit private schools. In addition, pursuant to the Amendment, (i) school sponsors of for-profit private schools are allowed to receive the operating profits of the schools while the school sponsors of non-profit private schools are not permitted to do so; (ii) non-profit private schools shall enjoy the same preferential tax and supply of land treatment as public schools while for-profit private schools shall enjoy the preferential tax and supply of land treatment as stipulated by the government; and (iii) for-profit private schools have the discretion to determine the amount of fees to charge by taking into consideration various factors such as the school operating costs and market demand, and no prior approval from government authorities is required, while non-profit private schools shall collect fees pursuant to the measures stipulated by the local PRC government authorities. On December 30, 2016, the Ministry of Education, or 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 April 20, 2018, the MOE issued for public comments the Draft Revision of the Regulations on the Implementation 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 MOJ published the committee draft of the Regulations on the Implementation of the Law on Promoting Private Education in PRC (Revised Draft), or the MOJ Draft for Approval, for public review and comments, 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 MOJ Draft for Approval proposes changes, clarifications and additional requirements with respect to private schools in addition to the currently effective Promoting Private Education Law and relevant implementation rules. In particular, the MOJ Draft for Approval 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 MOJ Draft for Approval, 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 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 MOJ Draft for Approval 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. MOJ Draft for Approval 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 administrative departments for market regulation, pursuant to which our private training institutions are not required to obtain a private school operation permit from education authorities. However, we cannot guarantee that the regulators will not subsequently change their view and take a contrary position, especially in light of the evolving licensing requirements. Should we be found by the regulators to fail to fully comply with any relevant requirements as interpreted by such regulators or fail to obtain the private school operation permits when required, we may be subject to order to suspend the operation of the affected private training institutions and refund the course fees, or a fine of one to five times of the gains from the private training institutions that failed to obtain the private school operation permits, which could materially and adversely affect our brand name and reputation, business, financial condition and results of operations. If the MOJ Draft for Approval is enacted in its current form, we may be required to change our corporate governance practices and our compliance costs could increase. The MOJ Draft for Approval also expressly provides that any investor controlled by any foreign-invested enterprises established in PRC or social organizations controlled by foreign entity is prohibited from establishing, participating in the establishment of, or exercising de facto control over compulsory education schools. As we do not provide compulsory education services, we believe such prohibition, even if enacted in its current form, would not apply to us.

Uncertainties exist with respect to the interpretation and enforcement of new and existing laws and regulations, including the interpretation and application of the Amendment and the way in which the implementation regulations to be promulgated by the local government authorities may impact any of our PRC subsidiaries and affiliates. We cannot assure you that we will be in compliance with the new rules and regulations, the interpretation of which may be uncertain, or that we will be able to timely and efficiently change our business practices in line with the new regulatory environment. Any such failure could materially and adversely affect our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

On July 5, 2013, the People's Bank of China ("PBOC") circulated the "Notice of the People's Bank of China on Simplifying the Procedures for Cross-border Renminbi Business Processes and Improving the Relevant Policies" ("Notice 168"), which improves the efficiency of cross-border Renminbi settlement and facilitates banking financial institutions and enterprises to conduct the cross-border settlement in Renminbi. Under Notice 168, the non-financial institutions within the territory of China may apply to the domestic banks for Renminbi overseas lending settlement business. The non-financial institutions within the territory of China that develop Renminbi overseas lending business shall, according to the Administrative Measures on Renminbi Bank Settlement Accounts (Order of PBOC 2003 No. 5 Released) and other regulations on bank settlement accounts management, apply to the domestic banks to open Renminbi special deposit accounts which will be used for Renminbi overseas lending. The Renminbi overseas loans must be recovered in Renminbi through the Renminbi special deposit account from which the loans are remitted, and the returned amount shall not exceed the aggregate principal, interest, domestic income tax, relevant fees and other reasonable income. In response to the persistent capital outflow and RMB's depreciation against U.S. dollar in the fourth quarter of 2016, the PBOC and the State Administration of Foreign Exchange, or SAFE, jointly implemented a series of capital control measures, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. For instance, the PBOC issued the Circular on Further Clarification of Relevant Matters Relating to Offshore RMB Loans Provided by Domestic Enterprises, or the PBOC Circular 306, on November 26, 2016, which provides that offshore RMB loans provided by a domestic enterprise to offshore enterprises that it holds equity interests in shall not exceed 30% of such equity interests. The PBOC Circular 306 may constrain our PRC subsidiaries' ability to provide offshore loans to us. The PRC government may continue to strengthen its capital controls and our PRC subsidiaries' dividends and other distributions may be subject to tighter scrutiny in the future. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

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

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

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

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

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

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

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

The Internet industry in China is highly regulated by the PRC government. Various regulatory authorities of the central PRC government are empowered to issue and implement regulations governing various aspects of the Internet industry. Each of our affiliated entities including Beijing Champion, Caikaowang, Champion Wangge, Beijing Ruida, Beijing Champion E&C Education, Beijing Champion H&E, and Beijing Champion Self-taught Education is required to obtain and maintain applicable licenses or approvals from different regulatory authorities in order to provide its current services. Beijing Champion, Caikaowang, Champion Wangge, Beijing Ruida, Beijing Champion E&C Education, Beijing Champion H&E, and Beijing Champion Self-taught Education have obtained primary approvals including an ICP license or filings for our 19 websites. These licenses are essential to the operation of our business and we are generally required to file annual reports to the relevant governmental authorities. Our affiliated entities, however, may be required to obtain additional licenses, such as an Online Publishing Services License for engaging in online publishing service, an Internet News Information Services Provision Approval for engaging in distribution of news through the Internet, a Talents Intermediary Service License for providing information network talents intermediary service and a Permit of Internet Cultural Activities for certain content posted on our websites and mobile apps, including our course materials, which may be deemed as "internet cultural products," some of which may be difficult or time-consuming for us to obtain. If any of our affiliated entities fails to obtain or maintain any of the required licenses or approvals, its continued business operations in the Internet industry may subject it to various penalties, such as confiscation of illegal revenues, fines and the discontinuation or restriction of its operations. Any such disruption in the business operations of our affiliated entities will materially and adversely affect our business, financial condition and results of operations.



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

On December 20, 2007, the State Administration of Press Publication Radio Film and Television, or SAPPRFT, and the MIIT issued the Internet Audio-Video Program Measures, which became effective on January 31, 2008 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 SAPPRFT or its local counterparts or completing the relevant registration with SAPPRFT or its local counterparts and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transfer to the public through the Internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. On February 3, 2008, SAPPRFT and MIIT jointly held a press conference in response to inquiries related to the Internet Audio-Video Program Measures, during which SAPPRFT and MIIT officials indicated that providers of audio-video program services established prior to the promulgation date of the Internet Audio-Video Program Measures that do not have any regulatory non-compliance records can re-register with the relevant government authorities to continue their current business operations. After the conference, the two authorities published a press release that confirms the above guidelines. On September 15, 2009, SAPPRFT promulgated a notice regarding the issues of management of Internet Audio-Video Program Services License, which provides that the application for re-registration of the Internet Audio-Video Program Services License shall be closed on December 20, 2009. On June 10, 2015, SAPPRFT issued a notice to solicit public opinions on the Administrative Measures for the Dissemination of Audio Video Programs via the Internet and Other Information Networks. On April 25, 2016, SAPPRFT promulgated the Provisions on the Administration of Private Network and Targeted Communication Audiovisual Program Services.

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

***If we are unable to obtain the necessary license as required by the Regulations on the Administration of Online Publishing Services, or the Online Publishing Measures, we may become subject to penalties, fines, legal sanctions or an order to delete online publications and shut down our websites.***

SPARRFT and the MIIT jointly promulgated the Regulations on the Administration of Online Publishing Services, or the Online Publishing Measures, which took effect from March 10, 2016. The Online Publishing Measures require online publishing service providers to obtain approval from the competent administrative department for publication and acquire an Online Publishing Service License. It may be difficult for us to obtain the Online Publishing Service License in practice.

We may face civil, administrative or criminal liabilities, including being ordered to shut down our websites or punished in other ways by the competent telecommunication authority if we provide online publishing services without obtaining the Online Publishing Service License. We may also be ordered to delete all related online publications, with our illegal income and the main equipment and special tools used to engage in illegal publishing activities being confiscated, and be subject to a fine that is five to ten times the illegal operating income if such operating income is more than RMB10,000, or a fine less than RMB50,000 if such operating income is less than RMB10,000.

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

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

- opposes the fundamental principles of the PRC constitution;
- compromises state security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- sabotages China's religious policy or propagates heretical teachings or feudal superstition;
- disseminates rumors, disturbs social order or disrupts social stability;
- propagates obscenity, pornography, gambling, violence, murder, fear or abets the commission of crimes;
- insults or slanders a third party or infringes upon the lawful rights of a third party; and
- includes other content prohibited by laws or regulations.

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

***Any changes in the PRC foreign investment legal regime may materially and adversely affect our operations and the contractual arrangements.***

On March 15, 2019, the National People’s Congress promulgated the Foreign Investment Law, effective from January 1, 2020 in replacement of 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. 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 the PRC 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. On December 12, 2019, the Standing Committee of the State Council adopted the Implementation Rules of Foreign Investment Law (draft). On December 26, 2019, the State Council promulgated the Implementation Rules of Foreign Investment Law, effective from January 1, 2020 in replacement of the implementation rules and ancillary regulations of Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law. Substantial uncertainties exist with respect to how the relevant government authorities would interpret and implement such rules in practice, which may incur additional costs for us to comply with such rules. If any of Beijing Champion, its subsidiaries or Champion Healthcare Education, or their future subsidiaries are found to be in violation of the Foreign Investment Law and its implementation rules and/or any other laws or regulations, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations and impose penalties which may result in material adverse effect on our ability to conduct our business. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of Beijing Champion, its subsidiaries or Champion Healthcare Education, or our right to receive their economic benefits, we would no longer be able to consolidate these entities.

Additionally, in August 2018, the MOJ published the MOJ Draft for Approval, for public review and comments. While there remains substantial uncertainty with respect to the final content, effective date, interpretation and implementation of the MOJ Draft for Approval, if enacted into law, related party transactions to which a private school (including a private training education institution) is a party would be required to be concluded on a fair and just basis without impediment to the interests of the state, the school, the teachers and the students, which could potentially impact our contractual arrangements with Beijing Champion and Champion Healthcare Education.

## **Risks Relating to Conducting Business in China**

*PRC economic, political and social conditions, as well as changes in any government policies, laws and regulations, could adversely affect the overall economy in China or the prospects of the education market, which in turn could adversely affect our business.*

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

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past two to three decades, growth has been uneven, both geographically and among various sectors of the economy. In addition, PRC economic growth gradually slowed in recent years, and the impact of COVID-19 on the Chinese economy in 2020 was severe. Demand for our products and services depends, in large part, on economic conditions in China. Any slowdown in China's economic growth may cause our potential course participants to delay or cancel their plans to participate in our education courses, which in turn could reduce our net revenues.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through the allocation of resources, controlling the incurrence and payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Changes in any of these policies, laws and regulations could adversely affect the overall economy in China or the prospects of the education market, which could harm our business.

The PRC government has implemented various measures to encourage foreign investment and sustainable economic growth and to guide the allocation of financial and other resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments, stricter or looser employment policies for particular industries or, changes in private education laws or tax regulations that are applicable to us. As the PRC economy is increasingly intricately linked to the global economy, it is affected in various respects by downturns and recessions of major economies around the world, stemming from events such as the past financial services and economic crises, and the current COVID-19 pandemic. The various economic and policy measures the PRC government adopts to forestall economic downturns or shore up the PRC economy may adversely affect our business. We cannot assure you that the PRC government will not repeal or alter these measures or introduce new measures that will have a negative effect on us.

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

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

Unlike common law systems, the PRC legal system is based on written statutes and decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters. The overall effect of legislation since then has been to significantly enhance the protections afforded to various forms of foreign investment in China. Four of our PRC operating subsidiaries, Champion Technology, Champion Education Technology, Zhongxi Healthcare Education and Jiangsu Champion Education Technology Co., Ltd., or Jiangsu Champion Technology, are wholly foreign-owned enterprises, and all are subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular. Our other PRC operating subsidiaries, controlled companies and PRC affiliated entities are subject to laws and regulations governing the formation and conduct of domestic PRC companies. Relevant PRC laws, regulations and legal requirements may change frequently, and their interpretation and enforcement involve uncertainties. For example, on March 15, 2019, the National People's Congress promulgated the Foreign Investment Law, effective from January 1, 2020 in replacement of 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. 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 the PRC 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. On December 12, 2019, the Standing Committee of the State Council adopted the Implementation Rules of Foreign Investment Law (draft). On December 26, 2019, the State Council promulgated the Implementation Rules of Foreign Investment Law, effective from January 1, 2020 in replacement of the implementation rules and ancillary regulations of Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law. Substantial uncertainties exist with respect to how the relevant government authorities would interpret and implement such rules in practice, which may incur additional costs for us to comply with such rules.

In addition, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than under more developed legal systems. Such uncertainties, including the inability to enforce our contracts and intellectual property rights, could materially and adversely affect our business and operations. Accordingly, we cannot predict the effect of future developments in the PRC legal system, particularly with respect to the education sector, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could adversely impact our corporate structure and business and limit the legal protections available to us and other foreign investors.

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

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

The Renminbi's exchange rate with the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. The People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate and achieve certain exchange rate targets, and through such intervention kept the U.S. dollar-Renminbi exchange rate relatively stable within a very narrow range against the U.S. dollar (remaining within 1% of its July 2008 high) for almost two years from July 2008. On June 20, 2010, the People's Bank of China announced that the PRC government would further reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. On March 15, 2014, the People's Bank of China announced that it further expanded the daily RMB against U.S. dollar trading band of the inter-bank spot foreign exchange market from 1% to 2% as of March 17, 2014, to allow Renminbi to move more freely and better reflect market supply and demand. On August 11, 12 and 13, 2015, the People's Bank of China significantly devalued the Renminbi by fixing its price against the U.S. dollar 1.9%, 1.6%, and 1.1% lower than the previous day's value, respectively. The value of the Renminbi against the U.S. dollar appreciated approximately 5.8% in 2017, depreciated approximately 5.0% in 2018, depreciated approximately 1.6% in 2019 and appreciated approximately 6.5% in 2020. It is difficult to predict how market forces, 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 to each other in recent years, 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 substantial liberalization of its currency policy, which could result in a further and more significant change in the value of the Renminbi against the U.S. dollar. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

***The discontinuation of any of the preferential tax treatments currently available to our PRC subsidiary, Champion Technology, controlled companies, Zhengbao Yucai and Xiamen NetinNet, and affiliated entity, Beijing Champion, could materially increase our tax liabilities.***

In March 2007, the National People's Congress enacted the Enterprise Income Tax Law, or the EIT Law, and in December 2007, the State Council promulgated the implementation rules of the EIT Law, both of which became effective on January 1, 2008. On February 24, 2017 and December 29, 2018, the EIT Law was amended, respectively. On April 23, 2019, the implementation rules of the EIT Law were amended. The EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the previous tax law. The EIT Law, however, (i) reduces the statutory rate of enterprise income tax from 33% to 25%, (ii) permits companies to continue to enjoy their existing tax incentives, subject to certain transitional phase-out rules, and (iii) introduces new tax incentives, subject to various qualification criteria. The EIT Law and its implementing rules permit qualified "high and new technology enterprises" to enjoy a reduced 15% EIT rate. The qualification criteria are significantly higher than those prescribed by the old tax rules. Beijing Champion and Champion Technology obtained the qualification certificates of high and new technology enterprises under the EIT Law on December 24, 2008 with a valid period of three years starting from January 1, 2008 and renewed the certificates in 2011, 2014, 2017 and 2020, respectively, for another three years. As a result, Beijing Champion was and will be subject to the tax rate of 15% from 2008 through 2022. Champion Technology was subject to the tax rate of 7.5% for 2008 through 2009 and, was and will be subject to 15% from 2010 through 2022. In addition, Zhengbao Yucai obtained the qualification certificate of high and new technology enterprise under the EIT Law on November 12, 2012 with a valid period of three years starting from January 1, 2012, and renewed the certificate in 2015 and 2018, respectively, each for another three years. As a result, Zhengbao Yucai was and will be subject to the tax rate of 15% from 2012 through 2020. Furthermore, Xiamen NetinNet obtained the qualification certificate of high and new technology enterprise under the EIT Law on September 30, 2014 with a valid period of three years starting from January 1, 2014, and renewed the certificate in 2017 and 2020 for another three years. As a result, Xiamen NetinNet was and will be subject to the tax rate of 15% from 2014 through 2022. The continued qualification of a high and new technology enterprise will be subject to annual evaluation and a three-year review by the relevant government authority in China. The PRC tax policies, interpretations, and practices regarding the overlap, phase-out, and transition of preferential treatments is subject to continuous change and uncertainty and we cannot assure you that Beijing Champion, Champion Technology, Zhengbao Yucai and Xiamen NetinNet will continue to qualify as high and new technology enterprises under the EIT Law, enjoy the preferential treatments under the phase-out rules, not encounter any challenges regarding past application for such treatments, or that the local tax authorities will not, in the future, change their position and revoke any of our past preferential tax treatments. The discontinuation of any of our preferential tax treatments could materially increase our tax obligations.

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

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

Under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," and will generally be subject to the uniform 25% PRC enterprise income tax rate on its global income. The implementing rules of the EIT Law define de facto management as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation (the "SAT"), or Circular 82, on April 22, 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a "resident enterprise" with its "de facto management bodies" located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management reside in the PRC. In addition, the SAT issued the Announcement of the SAT on Printing and Distributing the Administrative Measures for Overseas Registered Chinese-capital Controlled Tax Resident Enterprises (Trial), the Announcement 45, on July 27, 2011, effective September 1, 2011, providing more guidance on the implementation of Circular 82. Announcement 45 clarifies matters including residence status determination, post-determination administration and competent tax authorities. Furthermore, the SAT issued a bulletin on January 29, 2014, to provide more guidance on the implementation of Circular 82. This bulletin further provided that, among other things, an entity that is classified as a "resident enterprise" in accordance with Circular 82 shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors registered. From the year in which the entity is determined as a "resident enterprise", any dividend, profit and other equity investment gain shall be taxed in accordance with the Article 26 of EIT law and the Article 17 and Article 83 of its implementation rules.

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

In addition to the uncertainty in how the new “resident enterprise” classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. We are actively monitoring the possibility of “resident enterprise” treatment for the 2020 tax year and are evaluating appropriate organizational changes to avoid this treatment, to the extent possible.

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

Under the EIT Law and its implementing rules, dividends generated from retained earnings after January 1, 2008 from a PRC company and distributed to a foreign parent company are subject to a withholding tax rate of 10% unless the foreign parent’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, or the Hong Kong Tax Treaty, which became effective on January 1, 2007, a company incorporated in Hong Kong, such as CDEL Hong Kong and China Healthcare Education, will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in those particular PRC subsidiaries, or 10% if it holds less than a 25% interest in those subsidiaries. However, the SAT promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-the-form” principle to determine whether or not to grant tax treaty benefits. On June 29, 2012, the SAT further issued the Announcement of the SAT regarding Recognition of “Beneficial Owner” under Tax Treaties, or Announcement 30, which provides that a comprehensive analysis should be made when determining the beneficial owner status based on various factors supported by various types of documents including the articles of association, financial statements, records of cash movements, board meeting minutes, board resolutions, staffing and materials, relevant expenditures, functions and risk assumption as well as relevant contracts and other information. In August 2015, the SAT promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatments under Tax Treaties, or Circular 60, which became effective on November 1, 2015. Circular 60 provides that non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax rate. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. In February 2018, the SAT issued a new circular on issues relating to “beneficial owner” in tax treaties, or Circular No. 9, which became effective on April 1, 2018 and replaced Circular 601. Circular No. 9 provides a more flexible framework in determining whether an applicant engages in substantive business activities. In addition, in the event that an applicant who derives dividends from China does not satisfy the criteria for “beneficial owner,” but the person who holds 100% ownership interests in the applicant directly or indirectly satisfies the criteria for “beneficial owner” and the circumstances satisfy either of the following two circumstances: (1) if the person who satisfies the “beneficial owner” criteria is a resident of the same country(region) as the applicant; (2) if the person who satisfies the “beneficial owner” criteria is not a resident of the same country(region) as the applicant, but the person and any intermediary shareholders through which the person is indirectly holding the shares of the applicant are all “qualified persons”, the applicant will be deemed as a “beneficial owner.” In October 2019, the SAT published new rules on administrative measures for non-resident taxpayers to enjoy treatments under tax treaties, or Circular 35, which became effective on January 1, 2020 in place of Circular 60. Circular 35 simplified the procedures to claim treaty benefits from “filing documents for record” to “retaining documents for follow-up.”



As a result, although our four PRC subsidiaries, Champion Education Technology, Champion Technology, Zhongxi Healthcare Education and Jiangsu Champion Technology, are currently wholly owned by our Hong Kong subsidiaries, we cannot assure you that we would be entitled to the tax treaty benefits and enjoy the favorable 5% rate applicable under the Hong Kong Tax Treaty on dividends. If CDEL Hong Kong and China Healthcare Education cannot be recognized as the beneficial owner of the dividends to be paid by Champion Education Technology, Champion Technology, Jiangsu Champion Technology and Zhongxi Healthcare Education, respectively, to us, such dividends will be subject to a normal withholding tax of 10% as provided by the EIT Law and its implementing rules. This could have the effect of increasing our effective income tax rate and could also have an adverse effect on our net income and results of operations.

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

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

***Complex procedures under PRC regulations for some acquisitions of PRC companies by foreign entities could make it more difficult for us to pursue growth through acquisitions in China.***

The M&A Rule establishes additional procedures and requirements that could make some acquisitions of PRC companies by foreign entities, such as ours, more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign entity takes control of a PRC domestic enterprise. In addition, national security review rules issued by the PRC governmental authorities in 2011 require acquisitions by foreign investors of domestic companies engaged in military-related or certain other industries that are crucial to national security to be subject to prior security review. Moreover, the Anti-Monopoly Law requires that the Ministry of Commerce shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In the future, we may grow our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rule, the Anti-Monopoly Law, the security review rules, and other PRC regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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

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

Any loans we make to our PRC subsidiaries cannot exceed statutory limits and must be registered with the SAFE, or its local counterparts. Under applicable PRC law, the government authorities must approve a foreign-invested enterprise's registered capital amount, which represents the total amount of capital contributions made by the shareholders that have been registered with the registration authorities. In addition, the authorities must also approve the foreign-invested enterprise's total investment, which represents the total statutory capitalization of the company, equal to the company's registered capital plus the amount of loans it is permitted to borrow under the law. The ratio of registered capital to total investment cannot be lower than the minimum statutory requirement and the excess of the total investment over the registered capital represents the maximum amount of borrowings that a foreign invested enterprise is permitted to have under PRC law. If we were to make loans to our PRC subsidiaries, we would have to apply to the relevant government authorities for an increase in their permitted total investment amounts. The various applications could be time-consuming and their outcomes may be uncertain. Furthermore, even if we make loans to our PRC subsidiaries that do not exceed their current maximum amount of borrowings, we will have to register each loan with SAFE or its local counterpart for the issuance of a registration certificate of foreign debts. In practice, it could be time-consuming to complete such SAFE registration process. Concurrently with the loans, we might have to make capital contributions to these subsidiaries to maintain the statutory minimum registered capital and total investment ratio, and such capital contributions involve uncertainties of their own. Further, SAFE promulgated a circular (known as Circular 19) on March 30, 2015 with respect to the management approach regarding the settlement of foreign exchange capital of foreign-invested enterprises. Circular 19 permits foreign-invested enterprises to carry out domestic equity investment with the capital obtained from foreign exchange settlement. Circular 19 also stipulates that the capital of foreign-invested enterprises and capital in Renminbi obtained by them from foreign exchange settlement shall not be used for (i) the payment beyond the business scope of the enterprises or the payment prohibited by national laws and regulations; (ii) investment in securities unless otherwise provided by laws and regulations; (iii) granting entrustment 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 (iv) paying the expenses related to the purchase of real estate not for self-use, except for the foreign-invested real estate enterprises. In addition, SAFE promulgated Circular 59 on November 19, 2012 and revised the same on May 4, 2015, which requires the authenticity of settlement of the fund from offshore offerings to be closely examined and such fund to be settled in the manner described in the offering documents. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and Circular 16 could result in administrative penalties. 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 Renminbi 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). Because our PRC affiliated entities are domestic PRC entities, we are not likely to finance their activities by means of direct capital contributions due to regulatory issues relating to foreign investment in the online education industry, as well as the licensing and other regulatory issues discussed in "Item 4.B. Information on the Company — Business Overview — Regulations." Any loans we make to any of our PRC affiliated entities, which is treated as a PRC domestic company rather than a foreign-invested enterprise under PRC law, are also subject to various PRC regulations and approvals. Under applicable PRC regulations, international commercial loans to PRC domestic companies are subject to various government approvals.

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

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

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from June 1, 2015.

National Development and Reform Commission, or NDRC, promulgated the Administrative Measures for the Offshore Investment of Enterprise, or Circular 11, on December 26, 2017 which became effective on March 1, 2018. According to Circular 11, to make offshore investments, an enterprise located within the territory of the PRC, or an Investor, shall go through the formalities to have a proposed overseas investment project approved or filed on the record, report relevant information, and cooperate with supervision and inspection. Projects subject to approval administration shall be sensitive projects carried out by Investors either directly or through overseas enterprises under their control. The authority in charge of examining and approving such projects shall be the NDRC. Projects subject to record-filing administration shall be non-sensitive projects carried out directly by Investors; in other words, non-sensitive projects carried out by Investors to make direct investment with assets and equities or provide financing or a guarantee. For projects subject to record-filing administration, the authority in charge of record-filing shall be: (1) the NDRC, if the Investor is an enterprise under the administration of the Central Government (including financing institutions under the administration of the Central Government and enterprises under the direct administration of the State Council or its subordinate organs, the same below); (2) the NDRC, if the Investor is a local enterprise but the amount of investment made by the Chinese Investor amounts to USD300 million or above; and (3) the development and reform authority under the provincial government at the place where the Investor is registered if the Investor is a local enterprise and the amount of investment made by the Chinese Investor is less than USD300 million. Where natural persons within the territory of China make investments abroad through overseas enterprises under their control or through enterprises located in Hong Kong, Macao and Taiwan, the above mentioned approval or record filing measures shall apply mutatis mutandis.

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

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

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

***Restrictions on currency exchange may limit the ability of our PRC subsidiaries, controlled companies and affiliated entities to finance their activities.***

Substantially all of our revenues and operating expenses are denominated in Renminbi. Restrictions on currency exchange imposed by the PRC government may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies. Under current PRC regulations, Renminbi may be freely converted into foreign currency for payments relating to "current account transactions," which include among other things dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign exchange in their respective current account bank accounts, subject to a cap set by SAFE or its local counterpart, for use in payment of international current account transactions. Conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to "capital account transactions", which principally includes investments and loans, generally requires the approval of SAFE and other relevant PRC governmental authorities. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our PRC subsidiaries, controlled companies and affiliated entities to make investments overseas or to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Any existing and future restrictions on currency exchange may continue to affect the ability of our PRC subsidiaries, controlled companies or affiliated entities to finance their activities, or otherwise materially and adversely affect our business.

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

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

***The audit reports 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. In addition, various legislative and regulatory developments related to U.S.-listed PRC-based companies due to lack of PCAOB inspection and other developments may have a material adverse impact on our listing and trading in the U.S. and the trading prices of our ADSs.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board (United States), or the “PCAOB,” is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our independent registered public accounting firm as it relates to those operations without the approval of the PRC authorities, our independent registered public accounting firm is not currently inspected by the PCAOB. This lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our independent registered public accounting firm’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 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 the PRC. On inspection, it appears that the PCAOB continues to be in discussions with the PRC regulators CSRC and the MOF to permit joint inspections in the PRC 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 the PRC. The joint statement reflects a heightened interest in this issue. On April 21, 2020, the SEC and the PCAOB issued another joint statement reiterating the greater risk that disclosures will be insufficient in many emerging markets, including the PRC, compared to those made by U.S. domestic companies. In discussing the specific issues related to the greater risk, the statement again highlights the PCAOB’s inability to inspect audit work paper and practices of accounting firms in the PRC, with respect to their audit work of U.S. reporting companies. However, it remains unclear what further actions the SEC and PCAOB will take and its impact on the PRC companies listed in the U.S.

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

Inspections of other firms that the PCAOB has conducted outside the PRC 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 the PRC makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of the PRC that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular the PRC's, 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 prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges such as the New York Stock Exchange of issuers included on the SEC's list for three consecutive years. On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act, or the HFCAA. The HFCAA was approved by the U.S. House of Representatives on December 2, 2020. The HFCAA was signed into law by the president of the United States on December 18, 2020. In essence, the HFCAA requires the SEC to prohibit foreign companies from listing securities on U.S. securities exchanges if a company retains a foreign accounting firm that cannot be inspected by the PCAOB for three consecutive years, beginning in 2021. The enactment of Act and any additional rulemaking efforts to increase U.S. regulatory access to audit information in China could cause investor uncertainty for affected SEC registrants, including us, the market price of our ADSs could be materially adversely affected, and we could be delisted if we are unable to meet the PCAOB inspection requirement in time.

***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 US 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 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 US regulators on those requests, and that requests by US regulators for access to such papers in China had to be channeled through the China Securities Regulatory Commission, or the 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 normally be made to the CSRC. The PRC accounting firms would receive matching 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. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm’s performance of certain audit work, commencement of a new proceeding against a firm, or, in extreme cases, the resumption of the current proceeding against all four firms. If additional remedial measures are imposed on the PRC affiliates of the “big four” accounting firms, including our independent registered public accounting firm, in 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 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 the PRC may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, 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 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 of 1934, as amended. Such a determination could ultimately lead to the delisting of our ADSs from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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

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

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

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

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

***It may be difficult for overseas regulators to conduct investigations or collect evidence within China.***

Shareholder claims or regulatory investigations that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigation initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigations or evidence collection activities within the territory of the PRC. While detailed interpretation of or implementation rules under Article 177 have yet to be promulgated, the inability for an overseas securities regulator to directly conduct investigations or evidence collection activities within China may further increase difficulties faced by our shareholders in protecting their interests.



## **Risks Relating to Our ADSs**

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

The trading prices of our ADSs are likely to be volatile and could fluctuate widely in response to factors beyond our control. For example, if one or more of the industry analysts or ratings agencies who cover us downgrades us or our ADSs, or publishes unfavorable research about us, the price of our ADSs may decline. If one or more of these analysts or agencies cease to cover our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our ADSs or trading volume to decline. In addition, the performance and fluctuation of the market prices of other China-based, US-listed companies, including those of education companies, and those of companies planning to delist from U.S. stock exchanges and then publicly list on China's stock market, may affect the volatility in the price of and trading volumes for our ADSs. In the past, a number of PRC companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines following their initial public offerings. The trading performance of these PRC companies' securities at the time of or after their offerings may affect the overall investor sentiment towards PRC companies listed in the United States and consequently may impact the trading performance of our ADSs. These broad market and industry factors may significantly affect the market price and volatility of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for various business reasons. Factors such as variations in our revenues, earnings and cash flow; announcements concerning the currently pending going-private transaction; new investments, cooperation arrangements, and acquisitions; cessation, disposal, restructuring or reorganization of business lines; significant impairment of goodwill and impairment losses from long-term investments; legal disputes; declaration of dividends; fluctuations in market prices for our services; and financing activities could cause the market price for our ADSs to change substantially. Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade. We cannot give any assurance that these factors will not occur in the future again. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action lawsuit, it could divert the attention of senior management, and, if adversely determined, could have a material adverse effect on our business, financial condition and results of operations.

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

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our future ability to raise capital through offerings of our ADSs. As of September 30, 2020, there were 135,320,433 ordinary shares outstanding. All of our ADSs are freely tradable without restriction or further registration under the Securities Act unless held by our "affiliates" as that term is defined in Rule 144 under the Securities Act. Subject to the applicable restrictions and limitations under Rule 144 of the Securities Act, all of our shares outstanding are eligible for sale in the public market. In addition, as of September 30, 2020, there were 969,000 outstanding options to purchase ordinary shares, out of which almost all outstanding options have vested under their current terms. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our ADS could decline.

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

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

- provisions that restrict the ability of our shareholders to call meetings and to propose special matters for consideration at shareholder meetings;

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

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

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

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

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

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

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

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

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

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

Based on the composition of our assets and income during the taxable year ended September 30, 2020, we believe we were not a PFIC for that taxable year. However, there can be no assurance that we will not be a PFIC in any future taxable year, as PFIC status is tested each taxable year and will depend on the composition of our assets and income in such taxable year. In particular, in determining the average percentage value of our gross assets that are passive and non-passive assets, respectively, the aggregate value of our assets should generally be deemed to be equal to our market capitalization (the sum of the aggregate value of our outstanding equity) plus our liabilities. Therefore, a drop in the market price of our ADSs and ordinary shares and associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test. Accordingly, we would likely become a PFIC if our market capitalization were to decrease significantly while we hold substantial cash and cash equivalents. We currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets, which could affect our PFIC status in future years.

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

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

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

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

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

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

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

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

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

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

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Nearly all of our current operations are conducted in China. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult to effect service of process within the United States upon these persons. It may also be difficult to enforce in U.S. court judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are residents of countries other than the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or China would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, there is uncertainty as to whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or China against us or such persons predicated upon the securities laws of the United States or any state.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

We operate a U.S. listed company, China Distance Education Holdings Limited (NYSE: DL). Our U.S. listed company is primarily focused on the professional certification and professional development education markets by offering exam preparation courses and a series of complementary services for students across several industry verticals, such as accounting, healthcare, engineering & construction, and legal education, among others. The target customers are working professionals as well as college students. Our controlled company, Zhengbao Yucai, is primarily focused on China's college market, by offering business start-up training courses mainly to university students, and learning simulation software aimed at enriching the learning experience of college students and complementing traditional college teaching methods.

We commenced our business in China in July 2000. We incorporated China Distance Education Holdings Limited, or CDEL Cayman, in the Cayman Islands in January 2008. CDEL Cayman became our ultimate holding company in March 2008 after a series of restructurings in connection with our initial public offering in August 2008. Our ADSs are listed on the NYSE, under the symbol "DL." On March 11, 2014, we completed a follow-on public offering of 4,000,000 ADSs by us and certain selling shareholders.

Prior to 2015, we had been operating our businesses primarily through Beijing Champion, which operated most of our multiple lines of businesses. In an effort to improve operating efficiency and to better position the relevant business lines for future growth, we incorporated several new entities in 2015 to streamline the corporate structure of our different business lines.

To realign our healthcare business, we incorporated a holding company in the British Virgin Islands named China Healthcare Investment Limited, or China Healthcare Investment, its Hong Kong subsidiary named China Healthcare Education Limited, or China Healthcare Education, its PRC wholly-owned subsidiary Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd., or Zhongxi Healthcare Education, and a related PRC operating entity named Beijing Champion Healthcare Education Technology Co., Ltd., or Champion Healthcare Education. None of these entities has started conducting any business to date due to the inherent complexity of transfer of online business.

We also incorporated Beijing Champion Culture Development Co., Ltd., or Champion Culture, to conduct book production and book wholesale business, while Beijing Champion conducts book retail business.

We incorporated Nanjing Champion Vocational Training School, or Nanjing Champion Training School, to operate our business start-up training services in Nanjing. The incorporation of Nanjing Champion Training School was in response to the local governmental authority's request for training services to be offered in the region.

We incorporated Beijing Champion Tax Management and Advisory Co., Ltd., or Champion Tax Advisory (now known as Beijing Champion Yuanjian Education Technology Co., Ltd., or Champion Yuanjian), and have been gradually migrating the "Tax School" Program from Beijing Champion to it to better position the "Tax School" for future growth. This business has not yet generated reasonable returns since we started to operate it in 2013, therefore, we disposed of our 60% interest in Champion Tax Advisory to its management team in December 2018 for a final consideration of RMB35.9 million, which gives them more flexibility in formulating their future business development strategies.

We incorporated Beijing Champion Accounting Education Technology Co., Ltd., or Champion Accounting, and have migrated the College Cooperation Program from Beijing Champion to it to better monitor the Program's development.

We incorporated Beijing Champion International Education Technology Co., Ltd., or Champion International Education, in October 2016, and use it as the platform to introduce international education products and services, including the test preparation courses for AICPA, ACCA and CMA examinations, into China's market.

We incorporated Shanghai Xidong Information Technology Co., Ltd., or Shanghai Xidong, in the Shanghai Free Trade Zone in June 2017 to facilitate our cross-border activities.

To further develop our business start-up training business, we incorporated several subsidiaries under Zhengbao Yucai, including (i) Beijing Chuang Qingchun Chuang Weilai Education Technology Co., Ltd., or Chuang Weilai Education Technology, in February 2017, (ii) Shanghai Huzheng Education Technology Co., Ltd., or Shanghai Huzheng Education Technology, in May 2017, (iii) Guangdong Zhengbao Yucai Education Co., Ltd., or Guangdong Zhengbao Yucai, in June 2017, (iv) JinMaLan (Tianjin) Business Start-up Services Co., Ltd., or Tianjin Business Start-up Services, in December 2017, (v) JinMaLan (Anqing) Business Start-up Services Co., Ltd., or Anqing Business Start-up Services, in July 2018, (vi) Nanchang Champion Vocational Training School, or Nanchang Champion Training School, in March 2019, and (vii) Haimen Zhengbao Yucai Vocational Training School, or Haimen Yucai Training School, in May 2019.

We incorporated Xiamen Zhongxi Champion Education Technology Co., Ltd., or Xiamen Zhongxi Education, in November 2017, which entered into agreements to purchase an office building in Xiamen, with an office space of approximately 15,200 square meters, for a consideration of approximately RMB96.1 million. Xiamen Zhongxi Education took possession of the property in January 2020.

To further develop our learning simulation software business, we incorporated Beijing NetinNet Technology Co., Ltd., or Beijing NetinNet and Yunqi Zhixin (Hangzhou) Technology Co., Ltd., or Hangzhou Yunqi, under Xiamen NetinNet, in June 2018 and May 2020, respectively.

To further realign our healthcare education business, we incorporated Jiangsu Champion Healthcare Education Technology Co., Ltd., or Jiangsu Champion Healthcare Education, in January 2019, and its subsidiary, Beijing Champion H&E Technology Co., Ltd., or Beijing Champion H&E, in March 2019. The Company's existing healthcare education business line, which was originally operated by Beijing Champion, has been operated by them since June 2020.

To further realign our engineering & construction education business, we incorporated Jiangsu Champion E&C Education Technology Co., Ltd., or Jiangsu Champion E&C Education, in January 2019, and its subsidiary, Beijing Champion E&C Education Technology Co., Ltd., or Beijing Champion E&C Education, in March 2019. The Company's existing engineering & construction education business line, which was originally operated by Beijing Champion, has been operated by them since June 2020.

To further realign our self-taught education business, we incorporated Jiangsu Champion Self-taught Education Technology Co., Ltd., or Jiangsu Champion Self-taught Education, in January 2019, and its subsidiary, Beijing Champion Self-taught Education Technology Co., Ltd., or Beijing Champion Self-taught Education, in March 2019. The Company's existing self-taught education business line, which was originally operated by Beijing Champion, has been operated by them since June 2020.

To further develop our legal education business, we incorporated Hainan Ruida Chengtai Education Technology Co., Ltd., or Hainan Ruida, under Beijing Ruida, in August 2020. Hainan Ruida has not started conducting any business to date.

We do not believe that the incorporation of these new entities would result in any substantive impact on our operations.

In May 2016, we acquired 80% equity interest in Xiamen NetinNet, a learning simulation software provider specializing in practical accounting-related learning solutions for China's college market, for a total consideration of RMB212 million. Our acquisition of Xiamen NetinNet further complements our suite of learning solutions for the college market, and enables us to offer comprehensive accounting simulation-based learning content to college students aimed at enriching their learning experience and complementing traditional college teaching methods.

Zhengbao Yucai had been listed on the New Third Board since June 2016 until it voluntarily delisted from the New Third Board in April 2019. In March 2017, Zhengbao Yucai completed its share issuance plan on the New Third Board, under which Zhengbao Yucai issued new shares representing 40.5% of its total outstanding shares immediately after the share issuance. Total funds raised by the share issuance were RMB83.3 million. Mr. Zhengdong Zhu, chairman and CEO, and Mr. Liankui Hu, an independent director, subscribed for 63.8% and 24.6% of the new shares issued, respectively. Immediately following the share issuance, the equity interest of CDEL in Zhengbao Yucai was reduced from 60.1% to 35.8%. Mr. Zhengdong Zhu, Mr. Liankui Hu and a partnership holding equity interest in Zhengbao Yucai (in which Mr. Zhengdong Zhu has a majority interest) entered into an acting-in-concert agreement with a wholly-owned subsidiary of the Company, requiring them to vote their shares as to key matters submitted to the shareholders of Zhengbao Yucai for approval in accordance with the instructions of such subsidiary. Together, Mr. Zhengdong Zhu, Mr. Liankui Hu and the aforementioned partnership had a combined equity interest in Zhengbao Yucai of 59.5% immediately after the share issuance. In April 2019, Zhengbao Yucai voluntarily delisted from the New Third Board because the lack of both trading volume of its shares and fund-raising opportunities no longer justifies the expense and administrative efforts associated with maintaining its listing status on the New Third Board.

To further enhance our operating efficiency and optimize our overall business structure for future growth, in July 2017, we sold our 80% equity interest in Xiamen NetinNet to Zhengbao Yucai for a total consideration of RMB221 million. Immediately after the restructuring, the equity interest of CDEL in Xiamen NetinNet was reduced from 80.0% to 28.6%. Going forward, we do not intend to further inject any business operated by our U.S. listed company into Zhengbao Yucai.

In November 2017, we acquired 80% equity interest in Jiangsu Asset for a total consideration of RMB40 million. Jiangsu Asset provides accounting and related advisory services to SMEs. Our acquisition of Jiangsu Asset further broadens our services to SMEs by introducing accounting and related advisory services and provides valuable internship opportunities to students in our College Cooperation Program.

In September 2017, we acquired 40% equity interest in Beijing Ruida, a company engaged in exam preparation services for participants in China's Legal Professional Qualification Examination for a total consideration of RMB192 million, subject to adjustments under certain pre-agreed conditions. In July 2018, we acquired an additional 11% equity interest in Beijing Ruida for a total consideration of RMB52.8 million, subject to adjustments under certain pre-agreed conditions, bringing our total equity interest in Beijing Ruida to 51%. In August 2019, we acquired an additional 9% equity interest in Beijing Ruida for a total consideration of RMB38.3 million, further bringing our total equity interest in Beijing Ruida to 60%. Beijing Ruida delivers services and products at six campuses in China (Beijing, Shanghai, Nanjing, Hangzhou, Guangzhou, and Shenzhen) as well as through its online platform and a nationwide network of education partners. Through our acquisition of Beijing Ruida, we are able to strengthen our legal education vertical by adding a leading Legal Professional Qualification Examination preparation business to our portfolio of education services.

We have also made the following strategic investments:

In September 2016, we subscribed for 8.5% equity interest in Beijing Niuke Technology Co., Ltd., or Niuke Technology, an online information technology training and recruiting platform, in consideration of RMB4.3 million. In April 2018, we subscribed for an additional 3% equity interest in Niuke Technology in consideration of RMB4.5 million, bringing our total equity interest in Niuke Technology to 10.65%.

In November 2016, we entered into an investment agreement with Nurselink International Limited, or Nurselink Int'l, a company engaged in nurse recruiting and training services, to subscribe for 7.242% equity interest in Nurselink Int'l in two tranches for a total consideration of \$0.9 million. The first and second tranches of the investment were completed in November 2016 and April 2017, respectively. In May 2019, Nurselink Int'l completed its share issuance plan and our equity interest in it was reduced from 7.242% to 6.679% accordingly.

In January 2017, we entered into a share transfer agreement through our controlled company, Zhengbao Yucai, with certain shareholders of Hangzhou Wanting Technology Co., Ltd., or Hangzhou Wanting, to purchase 10.0% equity interest in Hangzhou Wanting for a consideration of RMB16.0 million. Hangzhou Wanting offers comprehensive simulation-based learning content to college students to master critical engineering & construction skills. In the second half of 2017, Zhengbao Yucai entered into share transfer agreements with certain shareholders of Hangzhou Wanting to further purchase 20.72% equity interest in Hangzhou Wanting for an aggregate consideration of RMB33.2 million. Altogether, Zhengbao Yucai has a combined equity interest of 30.72% in Hangzhou Wanting. During the fiscal year ended September 30, 2019, we determined that Hangzhou Wanting had going concern issues due to its failure to obtain a new round of capital investment, poor operating results and insufficient cash reserves. As a result, we recorded an impairment loss from this investment of \$6.4 million in fiscal year 2019. Hangzhou Wanting entered into liquidation procedure in August 2020.

In March 2017, we invested RMB17.0 million in Beijing Piyongke Technology Co., Ltd., or Piyongke Technology, for a combined equity interest of 19.5% in Piyongke Technology. Piyongke Technology is engaged in the development of animations and comics production tools for the education market. Because Piyongke Technology failed to fulfil the earn-out provision under the investment agreement, we issued a redemption request to the founder of Piyongke Technology, in October 2018, for the redemption of our 19.5% equity interest in Piyongke Technology. During the fiscal year ended September 30, 2018, we determined that Piyongke Technology had going concern issues due to its failure to obtain a new round of capital investment, poor operating results and insufficient cash reserves. As a result, we recorded an impairment loss from this investment of \$2.5 million in fiscal year 2018. We completed the investment exit in May 2019.

In November, 2017, we subscribed for 10% equity interest in Chongqing Moses Robots Co., Ltd., or Chongqing Moses Robots, an industrial automation solution provider, through our controlled company, Zhengbao Yucai, in consideration of RMB10.0 million. Chongqing Moses Robots did not achieve the pre-agreed performance target, which constitutes a redemption event for us. As part of the redemption process, we and Chongqing Moses Robots agreed to exchange the cash redemption amount for a 5% additional equity interest transferred by its founding shareholders to us. As a result, we further increased our equity interest in Chongqing Moses Robots to 15%.

In December 2017, we entered into a share transfer agreement with a shareholder of Beijing Teacheredu.cn Science & Technology Co., Ltd., or Beijing teacheredu, to purchase 14.5% equity interest in Beijing teacheredu for a consideration of RMB80.0 million. Beijing teacheredu offers continuing education to K-12 teachers across China. In October 2020, Beijing teacheredu completed its share issuance plan and our equity interest in it was reduced from 14.5% to 13.8% accordingly.



Since 2017, we have invested RMB15.0 million in total into a preschool education investment company, Beijing Xinrui Education Technology Co., Ltd., or Beijing Xinrui Education Technology, for a 40% equity interest. During the fiscal year ended September 30, 2020, we determined that Beijing Xinrui Education Technology had going concern issues due to its failure to obtain a new round of capital investment, poor operating results due to the impact of COVID-19 and insufficient cash reserves. As a result, we recorded an impairment loss from this investment of \$0.9 million in fiscal year 2020.

In March 2018, we subscribed for 15% equity interest in Beijing Yousian Technology Co., Ltd., or Beijing Yousian, an offline information technology training and recruiting service provider, for a consideration of RMB22.5 million. In addition, we have the right, at our option, to further increase our equity interest in Beijing Yousian up to 25% before April 2019 under certain pre-agreed conditions. Because Beijing Yousian failed to fulfil the earn-out provision under the investment agreement, we issued a redemption request to Beijing Yousian and its founders in March 2019 for the redemption of our 15% equity interest in Beijing Yousian. The redemption was completed in September 2019. As a result, we recorded a gain of \$0.3 million from disposal of this investment.

In March 2020, we subscribed for 20% equity interest in Shanghai Xiniiao Kuaifei Education Technology Co., Ltd., or Shanghai Xiniiao Education, a civil service test preparation service provider, for a consideration of RMB10 million. Because Shanghai Xiniiao Education failed to fulfil the earn-out provision under the investment agreement, its founding shareholder transferred 5% equity interest to us as a compensation. As a result, we further increased our equity interest in Shanghai Xiniiao Education to 25%.

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

We incurred capital expenditures of \$24.6 million, \$13.0 million and \$5.2 million in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. The amount of capital expenditures in the fiscal year ended September 30, 2020 related primarily to our expenditures on property, plant and equipment, and software. These capital expenditures were funded from our operating cash flow. For additional information on our capital expenditures, see “Item 5.B. Operating and Financial Review and Prospects — Liquidity and Capital Resources — Capital Expenditures.”

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

### **Proposed Going-private Transaction**

On December 1, 2020, we entered into a definitive Agreement and Plan of Merger (the “Merger Agreement”) with Champion Distance Education Investments Limited (“Parent”) and China Distance Learning Investments Limited (“Merger Sub”), a wholly owned subsidiary of Parent, pursuant to which, subject to the terms and conditions thereof, Merger Sub will merge with and into our company, with our company continuing as the surviving entity and becoming a wholly-owned subsidiary of Parent (the “Merger”), in a transaction in which we will be acquired by a buyer group consisting of Mr. Zhengdong Zhu, Ms. Baohong Yin, Zhangxing Wang, Qi Wang, and Xiaoshu Chen, who are the Company’s existing shareholders; and Yue Zhao, Jingdong Liu, and Tao Long, as equity sponsors; and affiliated entities of the foregoing persons (collectively, the “Buyer Group”).

Upon the effectiveness of the Merger, all of our outstanding ordinary shares, including ordinary shares represented by our ADSs, other than the Excluded Shares (as defined in the Merger Agreement) and ADSs representing the Excluded Shares, will be cancelled in exchange for the right of the holders thereof to receive \$2.45 in cash per ordinary share (the “Per Share Merger Consideration”), or \$9.80 in cash per ADS (the “Per ADS Merger Consideration”).

The Per ADS Merger Consideration represents a premium of approximately 35.7% to the closing trading price of our ADSs on June 5, 2020, the last trading day prior to our announcement of its receipt of a going-private proposal from Mr. Zhengdong Zhu, Ms. Baohong Yin, and their affiliated entity, and a premium of 37.1% to the volume-weighted average closing price of the ADSs during the last 30 trading days prior to our receipt of the going-private proposal.

The Merger Agreement provides that each outstanding share option to purchase our ordinary shares, whether vested or unvested, that is issued and outstanding as of immediately prior to the effectiveness of the Merger will be cancelled and exchanged for the holder's right to receive, at or promptly after the effectiveness of the Merger, an amount in cash determined by multiplying (i) the excess, if any, of the Per Share Merger Consideration over the applicable exercise price of such option by (ii) the number of ordinary shares underlying such option. Each ordinary share subject to our restricted share awards, whether vested or unvested, that is issued and outstanding as of immediately prior to the effectiveness of the Merger, except for restricted share awards held by Mr. Zhengdong Zhu and Ms. Baohong Yin, will be cancelled and exchanged for the holder's right to receive, at or promptly after the effectiveness of the Merger, an amount in cash equal to the Per Share Merger Consideration.

The completion of the Merger is subject to a number of customary conditions, including the Merger Agreement and the Merger having been authorized and approved by an affirmative vote of shareholders representing at least two-thirds of the voting power of the outstanding ordinary shares entitled to vote present and voting in person or by proxy at an extraordinary general meeting of our shareholders. The members of the Buyer Group have agreed to vote all of the ordinary shares beneficially owned by them in favor of the authorization and approval of the Merger Agreement and the Merger.

The Merger is currently expected to be completed by the end of the first half of 2021. If completed, the Merger will result in us becoming a privately-held company, our ADSs will no longer be listed on the New York Stock Exchange, and our ADS program will be terminated. See "Item 3.D. Risk Factors — Risks Relating to Our Business — The consummation of the proposed going-private transaction is uncertain, and the announcement and pendency of the transaction could have an adverse effect on our business, results of operations and financial condition."

## **B. Business Overview**

### **Overview**

Our mission is to be a life-long, comprehensive education partner and service provider for professionals and corporate clients in China to fulfill their educational and operational needs. In particular, we focus on helping professionals seeking to obtain and maintain professional licenses and to enhance their practical job skills through our professional development courses. We believe that we are the leading provider of online education in China primarily focusing on professional education, as measured by total number of course enrollments in fiscal year 2020. As of September 30, 2020, our content library encompassed 265 course offerings, approximately 7,650 classes, and close to 44,000 hours of audio-video content across 13 subject areas.

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

Our websites also generate significant user traffic. For the fiscal year ended September 30, 2020, we had 7.06 million new registered users, and we believe our websites were among the most visited websites in China's education industry, as measured by 1.81 million average daily unique visitors and 30.96 million average daily page views for our fiscal year ended September 30, 2020. As of September 30, 2020, we offered 78 downloadable and proprietary mobile applications and recorded 13.39 million downloads for the fiscal year ended September 30, 2020. We have a track record of successfully converting our user traffic into course enrollments and will continue to pursue opportunities to further monetize our user traffic and content library.

We focus our online professional education services in four main industries: accounting, healthcare, engineering & construction and legal education. In addition, we also offer other professional education courses, such as online test-preparation courses for self-taught learners pursuing higher education diplomas or degrees and accounting practical skills training courses for college students and working professionals. We also offer third-party developed online courses through our Online Open Learning Platform, a proprietary education platform that allows users to share their educational content or deliver live courses online. In May 2015, we launched our College Cooperation Program which enables us to expand our industry-leading online accounting educational content and services for professional examinations to college and university students, in partnership with colleges and universities. Our acquisition of Xiamen NetinNet in May 2016 further complements our suite of learning solutions for the college market, and enables us to offer comprehensive accounting simulation-based learning content to college students aimed at enriching their learning experience and complementing traditional college teaching methods. Our acquisition of Jiangsu Asset in November 2017 further broadens our services to SMEs by introducing accounting and related advisory services and provides valuable internship opportunities to students in our College Cooperation Program. Our acquisition of Beijing Ruida in July 2018 further strengthens our legal education vertical by adding a leading Legal Professional Qualification Examination preparation business to our portfolio of education services.

As of September 30, 2020, we operated 19 websites, including our main website [www.cdeledu.com](http://www.cdeledu.com) and 18 other websites, each dedicated to a specific industry, profession or discipline. Our online education courses accounted for 70.2%, 68.9% and 76.0% of our net revenues in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. In addition to traditional online courses, we also offer live streaming accounting, healthcare, engineering & construction, and legal courses through an app available on Android and Apple iOS tablets and smart phones. Furthermore, we sell books and reference materials, offer offline business start-up training courses and offline accounting, healthcare, engineering & construction and legal professional training courses, and provide courseware production services and platform production services for certain customers.

Our net revenues were \$166.7 million, \$211.8 million and \$209.6 million in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. We had net income attributable to CDEL of \$11.6 million, \$21.3 million and \$10.4 million in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. Our total course enrollments were 3,191,000, 3,793,000 and 4,255,000 for the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

### Our Online Education Services

We focus our online professional education services in four main industries: accounting, healthcare, engineering & construction and legal education. In addition, we offer other professional education courses, such as online test-preparation courses for self-taught learners pursuing higher education diplomas or degrees, and accounting practical skills training courses for college students and working professionals. The following table lists our key online course offerings for the fiscal year ended September 30, 2020.

<u>Discipline</u>	<u>Website</u>	<u>Contribution to Revenue (%)</u>	<u>Number of Course Offerings</u>	<u>Number of Classes</u>
Accounting	<a href="http://www.chinaacc.com">www.chinaacc.com</a> <a href="http://www.ck100.com">www.ck100.com</a>	53.8%	45	2,796
Healthcare	<a href="http://www.med66.com">www.med66.com</a>	12.4%	38	858
Engineering & Construction	<a href="http://www.jianshe99.com">www.jianshe99.com</a>	4.5%	85	2,471
Legal	<a href="http://www.ruidaedu.com">www.ruidaedu.com</a>	2.9%	5	205
Others		2.4%	92	1,315
<b>Total</b>		<b>76.0%</b>	<b>265</b>	<b>7,645</b>

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

In addition to traditional online courses, we also offer live streaming accounting, healthcare, engineering & construction, and legal courses through an app on Android and Apple iOS tablets and smart phones. Our live streaming courses are well suited for students who desire a technology-based learning solution, but prefer a live course setting and greater interaction with the lecturer.

### *Accounting Courses*

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

- *Elementary, Intermediate and Advanced Level Accounting Professional Qualification Examinations.* The skill level and technical competence of accounting professionals in China are measured by achieving certification at various levels within the accounting profession. These levels are determined by the ability of accounting professionals to pass elementary, intermediate and advanced level accounting professional qualification examinations. Candidates who pass these exams are issued an accounting qualification certificate for their respective level from the MOF and the Ministry of Human Resources and Social Security, or the MOHRSS, jointly.
- *CPA Qualification Examination.* Persons who act as certified public accountants in China are required to pass China's CPA Qualification Examination. This exam is open to all candidates who hold at least an associate college diploma or above degree or an intermediate level of accounting professional qualification certificate.
- *Continuing Education for Accounting Personnel.* PRC regulations require persons holding Certificates of Accounting Specialty and Technical Qualifications or performing accounting work to undergo stipulated study hours/credits of continuing education training each year. Failure to comply with these continuing education requirements can result in the suspension or cancellation of such certificate holders' certifications.
- *Tax Agent Qualification Examination.* Prior to August 2014, only registered tax agents were able to carry out tax agency services, issue tax audit reports and handle tax procedures such as applications for tax registration with relevant authorities on behalf of business entities. Persons wishing to qualify as registered tax agents were required to pass the RTA Qualification Exam. In August 2014, the PRC State Council cancelled the RTA Qualification Exam. In November 2015, the RTA Qualification Exam was officially changed to the Tax Agent Qualification Exam by the Chinese Certified Tax Agents Association.

- *Professional development courses.* A series of accounting and tax related professional development courses, or accounting practical skills training courses, are offered to various levels of accounting professionals, from junior accounting staff to senior management staff, aimed at enhancing their practical skills.
- *International Professional Qualification Examinations.* A series of international professional qualification examinations courses, including the test preparation courses for the examinations of American Institute of CPAs, or AICPA, Association of Chartered Certified Accountants, or ACCA, and Certified Management Accountant, or CMA, are offered to accounting professionals seeking internationally recognized accounting professional qualifications.

#### *Healthcare Courses*

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

- *National Practising Medical Doctor Qualification Examination.* This exam is administered by the National Health Commission (previously known as the National Health and Family Planning Commission), or the NHC, and is the basic qualification requirement for doctors in China.
- *Healthcare Professional Technical Qualification Examination.* This exam is jointly administered by the NHC and the MOHRSS. A person is eligible to apply for the Healthcare Professional Technical Qualification and is able to work as a medical technician in China if he or she passes this qualification examination.
- *National Pharmacist Qualification Examination.* This exam is jointly administered by the MOHRSS and the China Food and Drug Administration. Licensed pharmacists in China are required to pass the National Pharmacist Qualification Examination, obtain the Licensed Pharmacist Qualification Certificate and register with the relevant authorities.
- *National Nursing Qualification Examination.* This exam is administered by the NHC, and is the basic qualification requirement for nurses in China.
- *Health Manager Examination.* This exam is administered by the Vocational Skills Appraisal and Guidance Center of the NHC. A health manager is a professional engaged in the monitoring, analysis, evaluation, health maintenance and health promotion of the health of individuals or groups. A person will be issued a Health Manager License to work as a health manager in China if he or she passes this examination.

#### *Engineering & Construction Courses*

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

We also offer online continuing education courses to various engineering & construction professionals to help them meet government requirements and maintain their qualifications.

### *Legal Professional Training Courses*

We provide test preparation courses for legal professionals seeking to obtain legal professional licenses. Pursuant to the Implementation Measures for the National Uniform Legal Profession Qualification Examination, which became effective on April 28, 2018, personnel to be appointed as judges for the first time; personnel to be appointed as prosecutors for the first time; personnel applying for lawyers' and notaries' practice of law and serving as legal arbitrators for the first time; and civil servants of administrative authorities engaging in review of decisions of administrative penalty, administrative reconsideration, administrative ruling and legal consulting are required to pass the national uniform legal profession qualification examination and obtain legal professional qualification licenses.

### *Other Courses*

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

Each of the above course offerings follows a similar course production and online delivery model. We plan to continue to leverage our core online course production and delivery expertise to produce and deliver new courses for additional professions and industries.

### *Course Formats*

We offered various regular, premium and elite classes for our course offerings in fiscal year 2020, mainly comprised of the following different levels of education services at different fees:

- *Foundation Classes:* Our foundation classes contain detailed materials and instructions to provide course participants with broad and comprehensive knowledge of specific subject matter.
- *Intensified Focus Classes:* Our intensified focus classes are designed to provide more intensive instruction, at a more advanced pace, on the key topics of specific subject matter to course participants who already have a basic knowledge of the subject matter.
- *Exam Questions Analysis Classes:* Our exam questions analysis classes contain deep analysis on typical questions and instruction tailored for exam preparation, aimed at helping course participants master the related materials.
- *Crash-Course Classes:* Our crash-course classes are designed to provide a quick overview of the key topics on specific subject matter in the final weeks prior to an exam.
- *Exam Simulation System and/or Professional Development Courses:* Our exam simulation system, which covers certain of our courses, offers a wealth of mock test questions based on actual exams, closely conforms to the syllabus and test requirements of such exams, and covers various key examination points. The system sets a time limit for handing in test "papers", automatically reviews and grades these "papers," and pools wrong answers for repeated exercises, thereby honing the examinees' test-taking skills.
- *Live Streamed Courses:* Our live streamed courses are offered with some of our most popular exam subjects, and they are well suited for students who desire technology-based learning solutions, but prefer a live course setting and greater interaction with the lecturer.

We offer regular classes which provide education services over the subscription period from the month in which the course participant enrolls in the course to the month in which the subscribed course terminates, typically within one year. We also offer premium classes that cover the same courses as regular classes at higher fees. However, if a premium class participant fails to pass the course examination and certain pre-agreed conditions are met, the course participant can retake the same premium course for free in the following year or years. In addition, we offer elite classes for some of our most popular test-preparation courses. With our elite classes, course participants pay substantially higher course fees for enhanced support services and substantially more interactive course participation. After completing an elite class, if a participant fails to pass the relevant exam and certain pre-agreed conditions are met, the course participant can receive a cash refund of the course fees paid from us or from an insurance company.

Since fiscal year 2017, we have been placing more emphasis on live streaming, to complement our pre-recorded online audio video courses while strengthening the interaction among students, lecturers and our websites. We currently offer live streaming of certain accounting, healthcare, engineering & construction and legal courses, which are attracting a growing audience of students, on our proprietary learning platform and also on third-party social media platforms. Live streaming provides our students with another learning modality option, and helps elevate our brand, showcase our lecturers and drive course enrollments.

#### *Course Fees and Payment Methods*

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

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

- online and mobile payment on computers, tablets or smart phones using credit or debit cards, or via third-party payment networks;
- purchase of prepaid study cards;
- cash payment made at our offices; or
- installment loans offered by other institutions.

Online and mobile payment using credit or debit cards, or via third-party payment networks is the most frequently used payment method. Pre-paid study cards are another payment option and are sold through regional sales agents at points of sale throughout China. The pre-paid study cards come with face values ranging from RMB10 (\$1.47) to RMB500 (\$73.6). Once course participants activate the pre-paid study cards, the face values of the cards are added to their registered accounts.

#### **Other Products and Services**

##### *Books and Reference Materials*

We primarily sell proprietary books and reference materials related to our courses such as the various levels of Accounting Professional Qualification Examinations, the CPA Qualification Examination, the National Practicing Medical Doctor Qualification Examination, the National Pharmacist Qualification Examination, Associate Constructor and Constructor Qualification Examinations, and Legal Professional Qualification Examination. To promote our online courses, we sometimes sell books and reference materials together with some privileges, which allow course participants to get a certain number of electronic books and take a certain number of online courses for free. Our proprietary books and reference materials are authored by our lecturers. Pursuant to agreements with the lecturers, we own the copyright to these books and reference materials in almost all cases. We engage third-party publishers to publish our books and reference materials and distribute them through third-party bookstores and distributors across China, as well as through our online bookstores and our offices in Beijing.

##### *College Oriented Online-to-Offline Products and Services*

We launched our College Cooperation Program in May 2015. This program is aimed at expanding our industry-leading accounting educational content and services mainly for professional examinations to college and university students, in partnership with colleges and universities. This program is comprised of the following four components:

- **Online-Offline Blended Learning:** we work hand-in-hand with college and university partners to deliver a blended online-offline learning program where students can prepare for accounting related certifications and qualifications while in school.
- **Practical Training:** we provide students accounting practical skills training courses to prepare them for real-world accounting work.
- **Internship:** we assist students in obtaining virtual internships in accounting where interns can handle real accounting tasks from our enterprise customers using our accounting cloud services.
- **Employment Advisory & Recruitment:** we offer students employment guidance services to help them prepare for job opportunities. Using our big data analysis, we can match the employment goals of students with the recruitment needs of employers.

#### *Professional Oriented Online-to-Offline Products and Services*

In an effort to help course participants master critical accounting concepts and practical skills, and to guide them in their job search, we offer employment guidance services for accounting professionals, which bundle accounting practical skills training courses and employment guidance services.

#### *Business Start-up Training Courses*

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

#### *Sale of Learning Simulation Software*

We offer comprehensive accounting simulation-based learning content to college students aimed at enriching their learning experience and complementing traditional college teaching methods.

#### *Others*

We provide offline accounting, tax, healthcare, engineering & construction, and legal professional training to accounting firms and the general public. We acquired Jiangsu Asset in November 2017, which provides accounting and related advisory services to SMEs. We completed the acquisition of an additional 11% and 9% equity interest in Beijing Ruida in July 2018 and August 2019, respectively, bringing our total equity interest in Beijing Ruida to 60%. Through our acquisition of Beijing Ruida, we are able to strengthen our legal education vertical by adding a leading Legal Professional Qualification Examination preparation business to our portfolio of education services. We also provide courseware production services and online platform development services to certain customers on a contractual basis.

### **Our Educational Content and Delivery**

#### *Course Creation*

We have an extensive content library with 265 course offerings, approximately 7,650 classes, and close to 44,000 hours of audio-video content as of September 30, 2020. We place great emphasis on the quality of our courses and learning materials, both in terms of content and production quality to enhance course participants' learning experience. Prior to developing a new course, we gather market intelligence to ensure that we are developing relevant and up-to-date courses. Once we gather the requisite market intelligence, we typically develop and produce most of our courses in-house by working with our lecturers who possess extensive industry and academic backgrounds. To develop high-quality courses, we employ a variety of measures including substantive content review and content approval by our experienced personnel at each stage of the course development process. We regularly update our existing courses, typically every year, to stay abreast of the latest examination trends and professional requirements. Although our lecturers participate in the development of the course materials, in almost all cases, we own the copyrights to our courses and course materials pursuant to contracts with our online lecturers.



We believe superior delivery of our courses and learning materials is important for us to attract and retain course participants. We record, digitize and edit most of the high-definition audio-video lectures used in our online courses on our own premises. We maintain 55 fully-equipped recording rooms to ensure the high quality of the high-definition audio-video content and any graphics used in the lectures. Our editing department uses advanced high-definition audio-video editing software and equipment to eliminate breaks, pauses and unwanted noise from each lecture recording to further enhance the viewing and listening experience. All lectures are properly formatted and compressed to facilitate smooth transmission via streaming media and other Internet-based technologies. Our customer service team regularly seeks feedback on the quality of our courses from our course participants.

#### *Our Lecturers*

The vast majority of our lecturers are academics from renowned higher education institutions in China and experienced practitioners within their respective fields. They work with us to prepare the course content and lectures, while also serving as faculty members of various colleges and universities across China or working in their respective fields. Some of them are obligated to conduct online lectures exclusively for us. They are not our employees, however, and typically work for us on a part-time basis. A small portion of our lecturers are our tutors who remain full-time employees after becoming our lecturers. We have received positive feedback on these in-house lecturers from course participants and plan to continue to increase their numbers across our course offerings in the future. Almost all of our legal courses are offered by Beijing Ruida lecturers and eight of them are also the founders and shareholders of Beijing Ruida. The number of online lecturers producing online courses for us was 513, 541 and 527 in the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

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

Our lecturers are attracted to our online platform where their lectures can be viewed by tens of thousands of course participants across China, which can help further expand and enhance their national reputation in their respective fields. We pay our lecturers fees mainly based on the number of hours of lectures they deliver.

#### **Our Services to Students**

##### *Course-Related Support and Services*

We employ a service-oriented approach and devote significant resources to developing course-related support and services for our course participants. We provide tutorial sessions, which allow course participants to interact with their lecturers and other course participants using their personal computers. To enhance the learning experience, we also maintain a well-trained pool of tutors, who are knowledgeable about specific subject matter and exams, to answer questions from course participants and to host tutorial sessions. For questions submitted by course participants, our tutors are able to provide timely and accurate responses, usually within 24 hours after a question is submitted, through our online question and answer board. We had 286 tutors as of September 30, 2020, of which 28 are part-time employees. To ensure that our tutors are suitably qualified to support our courses and provide quality services, we have established stringent selection criteria and make hiring decisions based on academic qualifications, tutorial experiences and knowledge of various exams and subject matter. We require our tutors to possess, at a minimum, a college degree in the relevant academic area or a certification in the relevant industry, as well as familiarity with the actual exam and related subject matter. We believe that our high-quality tutorial and learning support services are critical to enhancing the learning experience of our course participants.

### *Community-oriented Services on Our Websites*

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

### *General Customer Services*

Our customer service representatives counsel potential and existing course participants on our courses and services, assist in course enrollment, process fee payments, conduct regular telephone customer surveys and provide other support services. They are available online and by email or phone, 24 hours a day, seven days a week. Our dedicated customer service team numbered 280 individuals as of September 30, 2020. We recruit our customer service personnel from candidates who have good communication skills and high customer service ethics, and provide on-the-job training for our new recruits. We conduct ongoing evaluations of our customer service staff and provide periodic training to improve their skill set.

### **Online Platform and Technology Infrastructure**

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

We have also extended our online courses from regular Internet-enabled desktop or laptop computers to Apple iOS, Android, and Windows tablets and smart phones. Once enrolled, participants can watch videos, do exercise questions and obtain tutoring support via all of these platforms. We develop and offer free mobile classes through our apps to offer more content and convenience for our course participants, as well as to promote our brand to the general public and to increase traffic to our websites. Our apps are available on Apple iOS, Android, and Windows tablets and smart phones and fall into four main categories: classes, tools, exam databanks, and reference reading. Our popular apps include: accounting mobile classroom, accounting mobile courses, architecture mobile classroom, "dreams come true" electronic books and CDEL architecture exam databank. As of September 30, 2020, we had 78 different mobile apps with over 13.39 million downloads. We have also built a robust online community platform that helps foster a strong sense of community among our course participants and builds brand loyalty.

We maintain multiple servers, which are separately located in multiple Internet data centers, or IDCs, in several cities across China, and a proprietary content delivery network system to mitigate any downtime arising from individual IDC or server failure. To increase reliability, availability and serviceability, we have created an environment in which each server can function independently. We regularly back up our databases. Using cluster technology, our system can identify errors and isolate failed servers automatically so that our course participants can access our services at any time. If a malfunction arises in a server or at a point of presence, our load balancing technology can automatically direct visitors to access the same content through another server or another point of presence. Our network administration department regularly monitors the performance of our websites and technology infrastructure, which will enable us to respond quickly to potential problems. In the fiscal year ended September 30, 2020, we have not experienced any material disruption to our business or websites.

We utilize streaming media technology as the primary delivery method for our online lectures because it allows the end-user to view the file as it is being delivered. To accommodate different levels of Internet access and bandwidth available to course participants across China, we provide our course lectures in a number of formats. Course participants may download copies of the lectures onto their own personal computers, tablets or smart phones and access the lectures later without internet connection. We utilize digital rights management, or DRM, technology to restrict the transfer and viewing of such downloadable media files.

## **Sales and Marketing**

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

### *Direct Sales and Referrals*

Many of our course participants learn about our services and courses through word-of-mouth referrals. As a result, some of our sales are made through our customer service representatives. Based on their knowledge of our courses and feedback from course participants, our customer service representatives are able to recommend the most suitable courses for new course participants and to cross-sell new or additional courses, learning tools and materials, as appropriate.

### *Regional and Online Sales Agents*

We use regional sales agents to resell our pre-paid study cards bought from us. Generally, we provide various discounts to our regional sales agents based on the volume purchased and the method of payment. In addition, these agents typically assist with our promotional activities in their respective regions and provide market feedback, which helps us in planning our marketing strategy and sales activities. In the fiscal year ended September 30, 2020, we had approximately 980 active regional sales agents throughout China. When selecting regional sales agents, we consider various criteria, such as whether the candidates have relevant experience and whether they are familiar with or have established relationships with local professionals, professional associations and organizations related to our target industries and professions. Our regional sales agents are comprised mostly of stores and other points of sale that sell books, learning materials and other supplies to our target professionals. Most of our regional sales agents are appointed on an exclusive basis.

We also use online sales agents, which typically are Internet companies, website operators, and WeChat group operators in China that market our course offerings and other services on their platforms. We pay our online agents marketing and promotional fees for each new course participant registered through their platforms. In the fiscal year ended September 30, 2020, we had approximately 740 active online agents.

Both of the above regional and online sales agents do not provide education services to our course participants. Beijing Ruida had 131 regional sales agents across China in the fiscal year ended September 30, 2020, who purchase services and products for Legal Professional Qualification Examination from Beijing Ruida and market them to their course participants.

#### *Other Advertising and Marketing Efforts*

Historically, we have placed advertisements mainly on high-traffic search engines, online portals and sometimes on TV programs, in newspapers, magazines, and journals in many cities across China. We also promoted our courses, services and products at examination registration centers and education and career fairs, including distributing complimentary study cards together with reference books and study materials that we sold at these places. We have also established a number of scholarships and granted awards to course participants who have achieved outstanding performance in various exams.

In an effort to attract course enrollments, we have adopted a multi-pronged marketing strategy utilizing various social media platforms since 2017. This strategy is designed to complement our existing marketing activities and is aimed at broadening our reach to prospective students, increasing our brand awareness, and convincing more students to choose us as their learning partner, while strengthening the interaction among students, lecturers and our websites.

First, we have stepped-up our publicity efforts using leading social media platforms to promote some of our popular lecturers. More specifically, these lecturers aim to attract a fan base by interacting with the public through various Web forums, including Weibo, WeChat, live streaming and other new media forms. These lecturer outreach efforts are designed to drive lecturer fans to our websites, as well as our official Weibo, blog, and WeChat accounts, with the goal of growing student traffic and in turn, student enrollments.

Second, we have developed cooperation programs with e-commerce websites, such as Tmall, by establishing flagship stores for our key subject areas. Our flagship Tmall Accounting, Healthcare, Engineering & Construction store opened in 2017, while our flagship Tmall Legal store was opened by Beijing Ruida in 2016. We intend to continue to develop additional cooperation programs with e-commerce websites in the future.

Third, we have cooperated with video-sharing websites to co-produce free high-quality online courses that are available to the general public. Our goal is to increase our brand awareness as a result of the increased exposure created by these free online courses, and attract more paid enrollments to our high-quality courses.

#### **Competition**

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

Although online education is increasingly perceived as an acceptable means of receiving training and instruction, traditional classroom instruction is still generally perceived as the more accepted method. We therefore compete with traditional offline educational institutions and training centers in the various areas for which we offer courses.

In addition, due to low barriers to entry for Internet-based businesses, we expect to face increasing competition from existing domestic competitors and new entrants to the online education market. We may face increased competition from international competitors that cooperate with local businesses to provide services based on the foreign partners' technology and experience developed in their home markets. Currently, our online competitors include general information websites that have web links to online training courses, traditional schools that provide online offerings and, existing and newly established online training and test preparation businesses. Starting from fiscal year 2017, we offer offline courses of APQE and CPA Qualification Examination to the general public, and after we acquired Beijing Ruida in July 2018, we began offering offline Legal Professional Qualification Examination test preparation courses to the general public. Therefore, we also face competition directly from traditional offline educational institutions and training centers offering these offline courses.

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

### **Intellectual Property**

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

As of September 30, 2020, we had registered 262 software copyrights with the National Copyright Administration of the PRC for our proprietary online course delivery platform, customer service system, DRM encryption system, streaming media load balancing system, online course creation management system, and certain other aspects of our online education platform, as well as learning simulation software developed by Xiamen NetinNet and accounting software developed by Jiangsu Asset. We had also registered 680 trademarks with the China Trademark Office and obtained 11 patent certificates from the State Intellectual Property Office, and 23 applications of trademarks and 3 applications of patents are currently pending.

As of September 30, 2020, we had registered 389 domain names relating to our business with the Internet Corporation for Assigned Names Numbers and China Internet Network Information Center, including all 19 of our operating websites. Our intellectual property is subject to risks of theft and other unauthorized use, and our ability to protect our intellectual property from unauthorized use is limited. In addition, we may be subject to claims that we have infringed the intellectual property rights of others. See “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights or defend against third party allegations of infringement may be costly and ineffective.”

### **Employees**

We had 2,443, 2,160 and 2,457 full-time employees as of September 30, 2018, 2019 and 2020, respectively. In addition to the above full-time employees, we had 85 part-time employees as of September 30, 2020.

### **Seasonality**

We have experienced seasonality and expect to continue to experience seasonality in revenues from online education services primarily due to seasonal changes in course enrollment and the timing of various exams. We have also experienced seasonality in revenues since our acquisition of Xiamen NetinNet and Beijing Ruida in May 2016 and July 2018, respectively. For more details, see “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility in and adversely affect the price of our ADSs.” Our revenue recognition policy can compound the effect of any seasonality or change in the timing of various exams. See “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Critical Accounting Policies — Revenue recognition.”

## **Regulations**

The provision of our online and offline education services is subject to PRC laws and regulations relating to the telecommunications industry and the education services industry. This section sets forth a summary of the principal laws and regulations that affect our business activities in China, the industries in which we operate, and our shareholders' right to receive dividends and other distributions from us.

### ***Restrictions on Telecommunications Industry***

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

- The Telecommunications Regulations (2014, as amended in 2016);
- The Administrative Measures for Telecommunications Business Operating Licenses (2017); and
- The Internet Information Services Administrative Measures (2000, as amended in 2011).

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

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

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

The State Council promulgated the Administrative Rules on Foreign-Invested Telecommunications Enterprises in December 2001, as amended on September 10, 2008 and February 6, 2016, respectively, or the FITE Rules. The FITE Rules set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. Pursuant to the FITE Rules, the ultimate capital contribution ratio of the foreign investor or investors in a foreign-funded telecommunications enterprise that provides value-added telecommunications services shall not exceed 50%. On June 30, 2016, MIIT issued the Announcement of the Ministry of Industry and Information Technology on Issues concerning the Provision of Telecommunication Services in Mainland China by Service Providers from Hong Kong and Macau, or the MIIT Announcement, which provides that investors from Hong Kong and Macau may hold more than 50% of the equity in FITEs engaged in certain specified categories of value-added telecommunications services.

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

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

On January 6, 2014, MIIT and the People's Government of Shanghai jointly promulgated the Opinions on Further Opening up Value-added Telecommunication Business in China (Shanghai) Pilot Free Trade Zone, which allows foreign investors to own more than 50% of the equity interests in companies conducting certain value-added telecommunication businesses, such as call center business, domestic multi-party communications service business, internet connection service business (provision of internet connection service to online users), online data processing and transaction processing business (foreign investors shall not own more than 55% of the equity interests). However, these opinions only apply to companies established in China (Shanghai) Pilot Free Trade Zone and therefore do not apply to us. On June 19, 2015, MIIT issued the Circular on Removing Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business, which amended the relevant provision in FITE Rules by allowing foreign investors to own more than 50% of the equity interest in an operator of e-commerce business. However, foreign investors continue to be prohibited from holding more than 50% of the equity interest in a provider of other categories of value-added telecommunications services except for operating e-commerce.

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

Our contractual arrangements with Beijing Champion include a technical support and consultancy services agreement pursuant to which Champion Technology is entitled to receive service fees from Beijing Champion. In addition, Champion Technology has entered into equity pledge agreements (as amended and restated) with each of the shareholders of Beijing Champion, pursuant to which each shareholder has pledged all of his or her interest in Beijing Champion to Champion Technology as security for the performance of Beijing Champion's obligations under the technical support and consultancy services agreement. Pursuant to an exclusive purchase rights agreement with Beijing Champion and its shareholders, CDEL Hong Kong or any third-party designated by CDEL Hong Kong has the right to acquire, in whole or in part, the equity interest of Beijing Champion, when permitted by applicable PRC laws and regulations.

Our contractual arrangements with Champion Healthcare Education include an exclusive business cooperation agreement pursuant to which Zhongxi Healthcare Education is entitled to receive service fees from Champion Healthcare Education. In addition, Zhongxi Healthcare Education has entered into an equity pledge agreement with the shareholders of Champion Healthcare Education, pursuant to which each shareholder has pledged all of his or her interest in Champion Healthcare Education to Zhongxi Healthcare Education as security for the performance of Champion Healthcare Education's obligations under the exclusive business cooperation agreement. Pursuant to an exclusive option agreement with Champion Healthcare Education and its shareholders, Zhongxi Healthcare Education or any third-party designated by Zhongxi Healthcare Education has the right to acquire, in whole or in part, the equity interest of Champion Healthcare Education, when permitted by applicable PRC laws and regulations.

There are also certain other agreements and letters of undertaking under the contractual arrangements. For a detailed discussion of these contractual arrangements, see “Item 4.C. Information on the Company — Organizational Structure.”

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

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

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

#### ***Regulations on Value-added Telecommunications Services and Internet Content***

Under PRC laws and regulations, Internet content provision services are classified as value-added telecommunications businesses, and a commercial operator must obtain a Telecommunications and Information Services Operating License, or ICP license, from the appropriate telecommunications authority in order to carry out commercial Internet content provision operations in China. These regulations also provide that if the Internet content services are provided in more than one province, then an inter-provincial ICP license must be obtained from MIIT, while if only one province is involved, the license can be obtained from the relevant provincial telecommunications administration. In addition, the regulations further provide that operators involved in Internet content provision that operate in sensitive and strategic sectors, including news, publishing and education, must obtain additional approvals from the relevant authorities in charge of those sectors.

Each of Beijing Champion, Caikaowang, Champion Wangge, Beijing Ruida, Beijing Champion E&C Education, Beijing Champion H&E, and Beijing Champion Self-taught Education holds an ICP license issued by the Beijing Telecommunications Administration Bureau, a local branch of the MIIT, which allows it to provide Internet content distribution services through 18 websites owned by Beijing Champion and its subsidiaries. The ICP license held by Beijing Champion is valid through August 1, 2023, the ICP license held by Caikaowang is valid through August 29, 2023, the ICP license held by Champion Wangge is valid through March 11, 2025, the ICP license held by Beijing Ruida is valid through January 10, 2023, the ICP license held by Beijing Champion E&C Education is valid through June 3, 2025, the ICP license held by Beijing Champion H&E is valid through June 3, 2025, and the ICP license held by Beijing Champion Self-taught Education is valid through June 3, 2025. These licenses and approvals are essential to the operation of our online professional education and test preparation services business.



### ***Regulation of Internet Content***

The PRC government has promulgated measures relating to Internet content through a number of ministries and agencies, including MIIT, the Ministry of Culture, the Press Office of the State Council and the State Press and Publications Administration. These measures specifically prohibit Internet activities that result in the publication of any content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China or compromise state security or secrets. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites. Under these measures, ICP license holders are required to monitor their websites, including electronic bulletin boards, for prohibited content and remove any such content that they discover on their websites.

The posting of news on websites and the distribution of news over the Internet are highly regulated and can only be engaged in by ICP license holders that have been specifically approved to do so. The Provisional Administrative Measures Regarding Internet Websites Carrying on the News Posting Business issued by the Press Office of the State Council, or SCIO, and MIIT in November 2000 provide that only websites that are established by government-authorized news agencies may operate online news posting businesses and post news reported by news agencies. Other general websites not established by news agencies may apply to the State Council News Office for approval to post on their websites news supplied contractually by approved news providers. A copy of the relevant news supply contract must be filed with the applicable provincial information offices where such other websites are located. These regulations also provide specific requirements with respect to facilities and level of experience of personnel that must be met by applicants for approval to post news on their websites. On May 2, 2017, the Administrative Regulations for Internet News Information Services, or the News Regulations, were promulgated by the Cyberspace Administration of China to replace the previous Administration of Internet News Information Services Provisions issued by the SCIO and MIIT on September 25, 2005, pursuant to which the scope of Internet news information services is specified and includes services of collecting, editing, and releasing Internet news information, reposting such news information, and providing a platform to spread such news information. On May 22, 2017, the Detailed Implementing Rules of Administration of Internet News Information Services Approval, or the Detailed Implementing Rules, were promulgated by the Cyberspace Administration of China, effective on June 1, 2017. The News Regulations and the Detailed Implementing Rules require the general websites of non-news organizations to apply to the SCIO at the national level for approval after securing the consent of the SCIO at the provincial level before they commence providing news dissemination services. If any information we provide through our websites is deemed current affairs, we may be subject to the above regulations.

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

The State Administration of Radio, Film and Television, or SAPPRFT, promulgated the Rules for Administration of Broadcasting of Audio-Video Programs through the Internet and Other Information Networks, or the Broadcasting Rules, in 2004, which became effective on October 11, 2004. The Broadcasting Rules apply to the activities of broadcasting, integrating, transmitting and downloading of audio-video programs with computers, televisions or mobile phones and through various types of information networks. Pursuant to the Broadcasting Rules, a Permit for Broadcasting Audio-Video Programs via Information Network is required to engage in these Internet broadcasting activities. On April 13, 2005, the State Council announced a policy on private investments in businesses in China relating to cultural matters that prohibits private investments in businesses relating to the dissemination of audio-video programs through information networks.

On December 20, 2007, SAPPRFT 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 SAPPRFT or its local counterparts or completing the relevant registration with SAPPRFT or its local counterparts and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transfer to the public through the Internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. On February 3, 2008, SAPPRFT and MIIT jointly held a press conference in response to inquiries related to the Internet Audio-Video Program Measures, during which SAPPRFT and MIIT officials indicated that providers of audio-video program services established prior to the promulgation date of the Internet Audio-Video Program Measures that do not have any regulatory non-compliance records can re-register with the relevant government authorities to continue their current business operations. After the conference, the two authorities published a press release that confirms the above guidelines. On September 15, 2009, SAPPRFT promulgated a notice regarding the issues of the management of Internet Audio-Video Program Services License, pursuant to which, the closing date of the application for re-registration of the Internet Audio-Video Program Services License was December 20, 2009. On June 10, 2015, SAPPRFT issued a notice to solicit public opinions on the Administrative Measures for the Dissemination of Audio Video Programs via the Internet and Other Information Networks.

On April 25, 2016, SAPPRFT promulgated the Provisions on the Administration of Private Network and Targeted Communication Audiovisual Program Services, or Targeted Communication Rules, which replaced the Broadcasting Rules issued in 2004. The Target Communication Rules mainly focus on networks and services such as IPTV and private network mobile TV.

On March 16, 2018, the SAPPRFT 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.

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

### ***Regulation of Information Security***

Internet content in China is also regulated and restricted by the PRC government to protect state security. The National People’s Congress has enacted a law that may subject to criminal punishment in China any person who: (i) gains improper entry into a computer or system of strategic importance; (ii) disseminates politically disruptive information; (iii) leaks state secrets; (iv) spreads false commercial information; or (v) infringes intellectual property rights.

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

On November 7, 2016, the SCNPC issued the Cyber Security Law of the People's Republic of China, or the Cyber Security Law, effective on June 1, 2017, which applies to the construction, operation, maintenance and use of the Internet as well as the supervision and administration of the cyber security within the territory of the PRC. Internet operators shall fulfill obligations of security protection according to the requirements of the classified protection system for cyber security to ensure that the Internet is free from interference, damage or unauthorized access, and prevent network data from being divulged, stolen or falsified. Internet operators refer to owners, administrators of the Internet and Internet service providers. Internet operators shall set up complaint and reporting systems for network information security, disclose the ways of complaint and reporting and other information, and promptly accept and handle complaints and reports related to Internet information security. If an Internet operator fails to comply with the Cyber Security Law, the relevant authorities may impose fine or penalties, suspend its business for internal rectification, shut down its websites, or revoke its relevant licenses and permits, and the Internet operator and/or its employees directly in charge may even be subject to criminal punishment. 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 law requires owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MIIT and obtain registration certificates from such registration agencies. A registered domain name owner has an exclusive use right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of September 30, 2020, we had registered 389 domain names relating to our websites, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center.

PRC law requires entities operating commercial websites to register their website names with the SAMR or its local offices and obtain commercial website name registration certificates. If any entity operates a commercial website without obtaining such a certificate, it may be charged a fine or imposed other penalties by SAMR or its local offices. We have registered 19 website names used in connection with our online education business with Beijing Municipal Bureau of Market Regulation, and have registered 14 website names with Xiamen Municipal Bureau of Market regulation.

### ***Regulation of Internet Publishing***

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

SPARRFT and the MIIT jointly promulgated the Regulations on the Administration of Online Publishing Services, or the Online Publishing Measures, which took effect on March 10, 2016 and abolished the Internet Publishing Regulations. The Online Publishing Measures require an online publishing service to obtain approval from the competent administrative department for publication and acquire an Online Publishing Service License. The term “online publishing service” is defined as activities which provide the public through information networks with digitized works which have the publishing features such as editing, producing and processing. If any entity arbitrarily engages in online publishing services without obtaining the Online Publishing Service License, the entity may incur civil, administrative or criminal liabilities, including being cancelled, ordered to shut down its website or punished in other ways by the competent telecommunication authority. Such entity may also be ordered to delete all related online publications, with its illegal income and the main equipment and special tools used to engage in illegal publishing activities being confiscated, and be subject to a fine that is five to ten times the illegal operating income if such operating income is more than RMB10,000, or a fine less than RMB50,000 if such operating income is less than RMB10,000.

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

PRC law does not prohibit Internet content providers from collecting and analyzing personal information from their users. PRC law prohibits Internet content providers from disclosing to any third parties any information transmitted by users through their networks unless otherwise permitted by law. If an Internet content provider violates these regulations, it may be liable for damages caused to its users and penalties or sanctions may be imposed by PRC governmental authorities including MIIT or its local counterparts. We believe we are in compliance with these regulations.

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

### ***Regulations on Protection of the Right of Dissemination through Information Networks***

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

### ***Regulation of Online Cultural Activities***

On February 17, 2011, the Ministry of Culture promulgated the Interim Administrative Provisions on Internet Culture, or the Internet Culture Provisions, which became effective on April 1, 2011 and was then amended on December 15, 2017. The Internet Culture Provisions apply to all ICPs that engage in the production and dissemination of cultural products via the Internet. “Internet cultural activities” is defined in the Internet Culture Provisions as an act of provision of Internet cultural products and related services, which includes (i) the production, duplication, importation, and broadcasting of the Internet cultural products; (ii) the online dissemination whereby cultural products are posted on the Internet or transmitted via the Internet to end-users, such as computers, fixed-line telephones, mobile phones, television sets and games machines, for online users’ browsing, use or downloading; and (iii) the exhibition and comparison of the Internet cultural products. In addition, “Internet cultural products” is defined in the Internet Culture Provisions as cultural products produced, broadcasted and disseminated via the Internet, which mainly include internet cultural products specially produced for the Internet, such as online music entertainment, online games, online shows and plays (programs), online performances, online works of art and online cartoons; and internet cultural products produced from cultural products such as music entertainment, games, shows and plays (programs), performances, works of art, and cartoons through certain techniques and duplicate those to internet for dissemination. All entities engaging in commercial Internet cultural activities, or Internet Cultural Entities, must be approved by the governmental agency of culture at the provincial level and by MIIT. The Ministry of Culture issued the Notice on Strengthening the Administration of Online Performance, or the Online Performance Notice on July 1, 2016 and the Measures of Administration of Online Performance Operating Activities, or Online Performance Measures on December 2, 2016, which became effective on January 1, 2017. The Online Performance Notice and the Online Performance Measures both stipulate that online performance service providers must obtain the Permit of Internet Cultural Activities and that online performances must not contain any content that is horrific, cruel, violent, vulgar or humiliating in nature, mocks persons with disabilities, includes photographs or video clips that infringe third parties’ privacy or other rights, features animal abuse, or presents characters.

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

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

Under the Online Education Regulations, setting up educational websites and online education schools is subject to approval from relevant education authorities, depending on the specific types of education provided. Under the Online Education Regulations, any educational website and online education school shall, upon receipt of approval, indicate on its website such approval information as well as the approval date and file number. According to the Administrative License Law promulgated by the National People’s Congress on August 27, 2003 and effective as of July 1, 2004, only laws promulgated by the National People’s Congress and regulations and decisions promulgated by the State Council may establish administrative license requirements. On June 29, 2004, the State Council promulgated the Decision on Cutting Down Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to be Retained, in which the administrative license for “online education schools” was retained, while the administrative license for “educational websites” was not retained. On January 28, 2014, the State Council promulgated the Decision to Cancel or to Delegate another Batch of Administrative Approval Items to Lower Level, in which the administrative license for “online education schools for higher education” was cancelled. On February 3, 2016, the State Council promulgated the Decision of State Council to Cancel the Second Batch of Administrative Approval Items (152 Items) that Delegated to Lower Level, in which the administrative license for “online education schools” and “educational websites” were cancelled.

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

According to the Administrative Regulations on Publication, or the Publication Regulations, promulgated by the State Council, which was published on December 25, 2001, and further revised on March 19, 2011, July 18, 2013, July 29, 2014 and February 6, 2016, respectively, publications is defined as “newspapers, periodicals, books, audio-video products, electronic publications, and others.”

Under the Administrative Measures for the Publication Market, or Administrative Measures, which was jointly promulgated by the State Press and Publication Administration and the MOFCOM and became effective on March 25, 2011, any enterprise or individual wishing to engage in publication distributing activities must obtain permission from the press and publication agency at relevant levels. “Publication” and “distributing” are defined, respectively, in the Administrative Measures, as “books, newspapers, periodicals, audio-video products, and electronic publications” and “general distribution, wholesale, retail, rental, exhibition and other activities.” Any enterprise or individual who engages in publication wholesale shall obtain a Publication Business License issued by the press and publication agency at the provincial level. A publications wholesale enterprise can engage in retail distribution as well. Any enterprise or individual who engages in publication rental shall file a record to the press and publication agency at the county level.

On May 31, 2016, the MOFCOM issued Administrative Provisions on the Publications Market, or the New Administrative Provisions, which became effective on June 1, 2016 and cancelled the Administrative Measures. Pursuant to the New Administrative Provisions, where an enterprise or individual that has obtained a Publication Business Permit is engaged in the publications distribution via the Internet or other information networks within the approved business scope, it or he/she shall make the record-filing with the publication administrative department that granted such approval within 15 days after launching its online distribution business.

Each of Beijing Champion and Champion Culture hold a Publication Business Permit for book wholesale issued by Beijing Press and Publication Bureau since January 2016, under which both of them are allowed to engage in the book wholesale and retail businesses. These permits are valid through April 30, 2022. Zhengbao Yucai holds a Publication Business License for book wholesale and retail issued by Beijing Press and Publication Bureau which is valid until April 30, 2022. Beijing Ruida holds a Publication Business License for book wholesale and retail issued by Beijing Press and Publication Bureau which is valid until April 30, 2022. Each of Beijing Champion E&C Education and Beijing Champion H&E holds a Publication Business License for book retail issued by Beijing Press and Publication Bureau, which is valid until April 30, 2022, respectively.

### ***Regulation on E-commerce***

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

On June 19, 2015, MIIT promulgated the Circular on Removing the Restrictions on Shareholding Ratio Held by Foreign Investors in Online Data Processing and Transaction Processing (Operating E-commerce) Business. The circular stipulates that the ceiling of foreign ownership ratio of online data processing and transaction processing (operating e-commerce) business may be up to 100 percent.

#### ***Regulations on Operation of Radio Television Programs***

According to the Administrative Provisions on the Production and Distribution of Radio and Television Programs promulgated by SPARRFT on July 19, 2004, as revised on August 28, 2015, PRC institutions that produce and distribute radio and television programs or engage in the production and distribution of radio and television programs shall obtain the Permit of Operation of Radio Television Programs. Beijing Champion holds a Permit of Operation of Radio Television Programs for an effective period from June 10, 2019 to March 31, 2021. Beijing Champion E&C Education holds a Permit of Operation of Radio Television Programs for an effective period from September 2, 2020 to September 2, 2022. Beijing Champion H&E holds a Permit of Operation of Radio Television Programs for an effective period from August 24, 2020 to August 24, 2022. Beijing Champion Self-taught Education holds a Permit of Operation of Radio Television Programs for an effective period from August 25, 2020 to August 25, 2022.

#### ***Regulations on Talents Intermediary Service***

On April 30, 2015, the Ministry of Human Resources and Social Security of the PRC passed the Administrative Measures of Talents Market. Under such regulations, an Internet service provider must apply for and hold the Talents Intermediary Service License if such provider operates an information network offering talents intermediary service. If any entity establishes such talents intermediary service agency or conducts such talents intermediary service business without such license, the entity may be ordered to close down and imposed a fine of up to RMB10,000. If such entity gains illegal income from talents intermediary service business without the required license, the amount of such fine that can be imposed shall be within three times of such illegal income with the maximum amount of RMB30,000. Beijing Champion holds the Talents Intermediary Service License issued by Beijing Human Resources and Social Security Bureau on April 10, 2017 and valid through April 9, 2022.

#### ***Regulations on Private Education***

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

On March 18, 1995, the National People's Congress promulgated the Education Law of the PRC, or the Education Law, which became effective on September 1, 1995. The Education Law stipulates that enterprises, social organizations and individuals are encouraged to operate schools and other types of educational organizations in accordance with the PRC laws and regulations. Meanwhile, no organization or individual may establish or operate a school or any other institutions of education for profit-making purposes. However, private schools may be operated for "reasonable returns" as described in more detail below. On December 27, 2015, the National People's Congress amended the Education Law of the PRC, which became effective on June 1, 2016. The amended Education Law of the PRC, among other things, deleted the restrictions on organizations or individuals establishing or operating schools or any other institutions of education for profit-making purposes, and added a requirement that the schools and other institutions of education which are established with governmental funds or donated assets may not establish profit-making institutions of education.

The Law for Promoting Private Education became effective on September 1, 2003 and was respectively amended on June 29, 2013, November 7, 2016 and December 29, 2018, and the Implementation Rules for the Law for Promoting Private Education (2004) became effective on April 1, 2004. Under these regulations, “private schools” are defined as schools established by social organizations or individuals using non-government funds. In addition, private schools providing certifications, pre-school education, education for self-study aid and other academic education shall be subject to approval by the education authorities, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labor and social welfare. A duly approved private school will be granted a Permit for Operating a Private School, and shall be registered with the Ministry of Civil Affairs of the PRC, or MCA or its local counterparts as a privately-run, non-enterprise institution. Pursuant to the amendment to the Law for Promoting Private Education passed by the SCNPC on November 7, 2016, which became effective on September 1, 2017, for-profit private schools are allowed to be established, except schools for compulsory education.

On April 20, 2018, the MOE issued for public comments the Draft Revision of the Regulations on the Implementation 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 MOJ published the committee draft of the Regulations on the Implementation of the Law on Promoting Private Education in PRC (Revised Draft), or the MOJ Draft for Approval, which 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 administrative departments for market regulation. Pursuant to the MOJ Draft for Approval, organizations that use Internet technology to implement training and education activities online, occupational qualifications or occupational skills activities, or internet technology service platforms that provide services for online implementation of the aforementioned activities shall obtain the corresponding Internet business license and approval from the education administrative authorities and the human resources and social security authorities of the state level where the institution resides and shall not implement educational or teaching activities which require the private school operation permit. The MOJ has not provided the timeframe for the promulgation of the revised implementation rules on the Law for Promoting Private Education of the PRC, even though the public consultation on the MOJ Draft for Approval has ended on September 10, 2018. If the abovementioned MOJ Draft for Approval is enacted as proposed, certain training institutions, such as our private training institutions, are not required to obtain a private school operation permit from education authorities. However, as the MOJ Draft for Approval is still in draft form, there can be no assurance that it will be enacted as proposed or at all.

Each of Beijing Champion Training School, Beijing Youbang Culture and Art Training School, Nanchang Champion Training School, Haimen Yucai Training School, and Nanjing Champion Training School holds the Permit for Operating a Private School, which is valid through December 7, 2023, May 31, 2023, March 14, 2023, May 19, 2022, and October 31, 2023, respectively.

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

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



The election to establish a private school requiring reasonable returns shall be provided in the articles of association of the school. The percentage of the school's annual net balance that can be distributed as reasonable returns shall be determined by the school's board of directors, taking into consideration the following factors: (i) the school's tuition and other fees, (ii) the ratio of the school's expenses used for educational activities and improving the educational conditions to the total fees collected; and (iii) the school's admission standards and educational quality. Information relating to the above factors shall be publicly disclosed before the school's board determines the percentage of the school's annual net balance that can be distributed as reasonable returns. This disclosed information and the decision to distribute reasonable returns shall also be filed with the approval authorities within 15 days from the decision made by the board. However, none of the current PRC laws and regulations provides a formula or guidelines for determining "reasonable returns." In addition, none of the current PRC laws and regulations sets forth different requirements or restrictions on a private school's ability to operate its education business based on such school's status as a school that requires reasonable returns or a school that does not require reasonable returns.

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

### ***Regulation on Copyright and Trademark Protection***

China has adopted legislation governing intellectual property rights, including copyrights and trademarks. China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001. The National People's Congress amended the Copyright Law in 2001 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. Pursuant to the Copyright Law, which was amended on February 26, 2010 and became effective on April 1, 2010, in exercising copyright, copyright owners shall not violate the Constitution and the laws, nor damage the public interests. The State supervises and administers the publication and dissemination of the works in compliance with the law. In the event that the copyright is pledged, both the pledgor and pledgee shall register the pledge with the copyright administrative authorities of the State Council.

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

The PRC Trademark Law, adopted in 1982 and revised in 2013 and 2019, respectively, protects the proprietary rights to registered trademarks. The Trademark Office under SAMR handles trademark registrations and grants a term of ten years to registered trademarks and another ten years to trademarks as requested upon expiry of the prior term. Trademark license agreements must be filed with the Trademark Office for record. In addition, if a registered trademark is recognized as a well-known trademark in a specific case, the proprietary right of the trademark holder may be extended beyond the registered sphere of products and services of the trademark in such case.

### ***Employment Laws***

In accordance with the Labor Law, which became effective in January 1995, and the Labor Contract Law, which 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.

### ***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 designated 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.

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

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

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 entrusted 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, the 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.

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 Renminbi 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) on foreign investment. However, since the SAFE Circular 28 is newly promulgated, it is unclear how SAFE and competent banks will carry this out in practice.

### ***Regulation of Foreign Exchange Registration of Offshore Investment by PRC Residents***

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

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

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

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

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

### ***Regulation of Security Review***

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

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

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

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

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

## ***Regulations on Taxation***

On March 16, 2007, the National People's Congress, the Chinese legislature, passed the EIT Law, which took effect on January 1, 2008. On February 24, 2017 and December 29, 2018, the EIT Law was amended, respectively. The EIT Law applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises. There is a transition period for the enterprises, whether foreign-invested or domestic, which had received preferential tax treatments granted by relevant tax authorities prior to March 16, 2007. Enterprises that had been subject to an enterprise income tax rate lower than 25% prior to March 16, 2007 may continue to enjoy the lower rate and gradually transfer to the new tax rate within five years after the effective date of the EIT Law. Enterprises that had been entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to March 16, 2007 may continue to enjoy such treatment until the fixed term expires. Preferential tax treatments will continue to be granted to industries and projects that are strongly supported and encouraged by the state, and enterprises otherwise classified as "high and new technology enterprises strongly supported by the state" upon re-examination will be entitled to a 15% enterprise income tax rate. The EIT Law empowers the State Council to enact appropriate implementing rules and regulations. The State Council promulgated the implementation rules of the EIT Law in December 2007 and the Ministry of Science and Technology, the MOF and the SAT promulgated other supplemental rules in April 2008 and July 2008 which were canceled and replaced by new rules in January 2016 and June 2016, respectively, regarding new criteria for the granting of "high and new technology enterprises" status. Any enterprises to be granted with "high and new technology enterprises" status shall meet certain requirements, including but not limited to the following: (1) the enterprise has been incorporated for more than one year before application; (2) the enterprise itself owns the intellectual property right for the core technology of its product or service; (3) the enterprise's core technology of its product or service falls into the ambit of "high-tech fields heavily supported by the government;" (4) technicians that are engaged into research and development account for more than 10% of all the staff; (5) in the latest three financial years (actual operating year if incorporated less than three years), the research and development expenses account for 3%-5% or more of the latest sales revenue and the research and development expenses incurred within China shall not be less than 60% of the total research and development expenses; (6) the revenue in the latest year derived from the high-tech product or service accounts for more 60% of the total revenue; (7) the innovation capability of the enterprise shall meet the relevant evaluation standards; and (8) no major security or qualification incident or sever environmental illegal behavior occurred within the previous year before application. To apply for the "high and new technology enterprises" status, an enterprise shall file its corporate certificates and supporting documents evidencing the requirements to the relevant government authority. The government authority will examine the filed certificates and documents to determine whether the enterprise meets the "high and new technology enterprises" requirements. If the decision is positive, the authority will make a public announcement and grant the enterprise with a "high and new technology enterprises" certificate with a valid term of three years. Upon the expiration of the initial term, the enterprise shall file a new application to obtain such status. Loss of any preferential tax treatments previously granted to us could have a material and adverse effect on our financial condition and results of operations.

On November 11, 2011, as approved by the State Council, the MOF and the SAT, promulgated the Circular Regarding the Launch of Pilot Practice of Replacing Business Tax with Value-Added Tax in Transportation Industry and Some Modern Service Industries in Shanghai, or Circular No. 111. Circular No. 111 and its annexes stipulated that the launch of a pilot practice of replacing business tax with value-added tax ("Pilot Practice") would commence in the transportation industry and some modern service industries, including software service and information system service, in Shanghai beginning on January 1, 2012. On July 31, 2012, upon approval by the State Council, MOF and the State Administration of Taxation promulgated the Circular Regarding the Launch of Pilot Practice of Replacing Business Tax with Value-Added Tax in Transportation Industry and Some Modern Service Industries in Beijing and other Seven Provinces and Municipalities, or Circular No. 71, which expanded the region for the Pilot Practice from Shanghai to Beijing and other regions. The Pilot Practice commenced in Beijing on August 1, 2012. On May 24, 2013, MOF and the State Administration of Taxation promulgated the Circular Regarding Nationwide Practice of Replacing Business Tax with Value-Added Tax in Transportation Industry and Some Modern Service Industries, or Circular No. 37, which started implementation from August 1, 2013 replacing Circular No. 111 and Circular No. 71. Circular No. 37 was replaced by the Circular Regarding the Inclusion of Railway Transportation and Postal Industry into the Pilot Practice of Replacing Business Tax with Value-Added Tax, or Circular No. 106, which was promulgated by MOF and the State Administration on December 12, 2013 and was replaced by Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value-Added Tax, or Circular No. 36, which was promulgated by MOF and the State Administration on March 24, 2016 and became effective on May 1, 2016. On June 18, 2016, the MOF and the SAT promulgated the Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value-Added Tax in the Policy of Reinsurance, Real Estate Leasehold and Non-degree Education, or Circular No. 68 effective on May 1, 2016, pursuant to which general taxpayers providing non-academic education services may apply a simple method for calculating the tax payable amount in accordance with the tax rate of 3%. Since January 2020, in accordance with the Announcement on Tax Policies to Support Prevention and Control of Pneumonia Caused by Novel Coronavirus Infection issued by MOF and SAT, or the Cai Shui [2020] No.8 and Cai Shui [2020] No.28, due to the COVID-19 virus, the VAT from providing daily life services was exempted starting on January 1, 2020 until December 31, 2020. See "Item 5.A. Operating and Financial Review and Prospects — Operating Results — Value-Added Tax and Related Surcharges."

### ***Regulations on Accounting Professional Qualification***

According to the Accounting Law of the People's Republic of China (Revised in 1999), or the Accounting Laws, enacted on October 31, 1999 and effective on July 1, 2000, a person who is engaged in accounting work must acquire accounting professional qualification or Accounting Certificate.

Pursuant to Administrative Measures for the Qualifications of Accounting Practitioners (Revised in 2016) on November, 2016 and effective July 1, 2016, entities may not appoint or retain personnel who have not acquired the accounting professional qualification to engage in accounting work. Personnel, who have not acquired the required accounting professional qualification may not engage in accounting work, participate in the accounting professional technician qualification examination or assessment, be employed for accounting professional positions, or apply for an honorary certificate for accounting personnel.

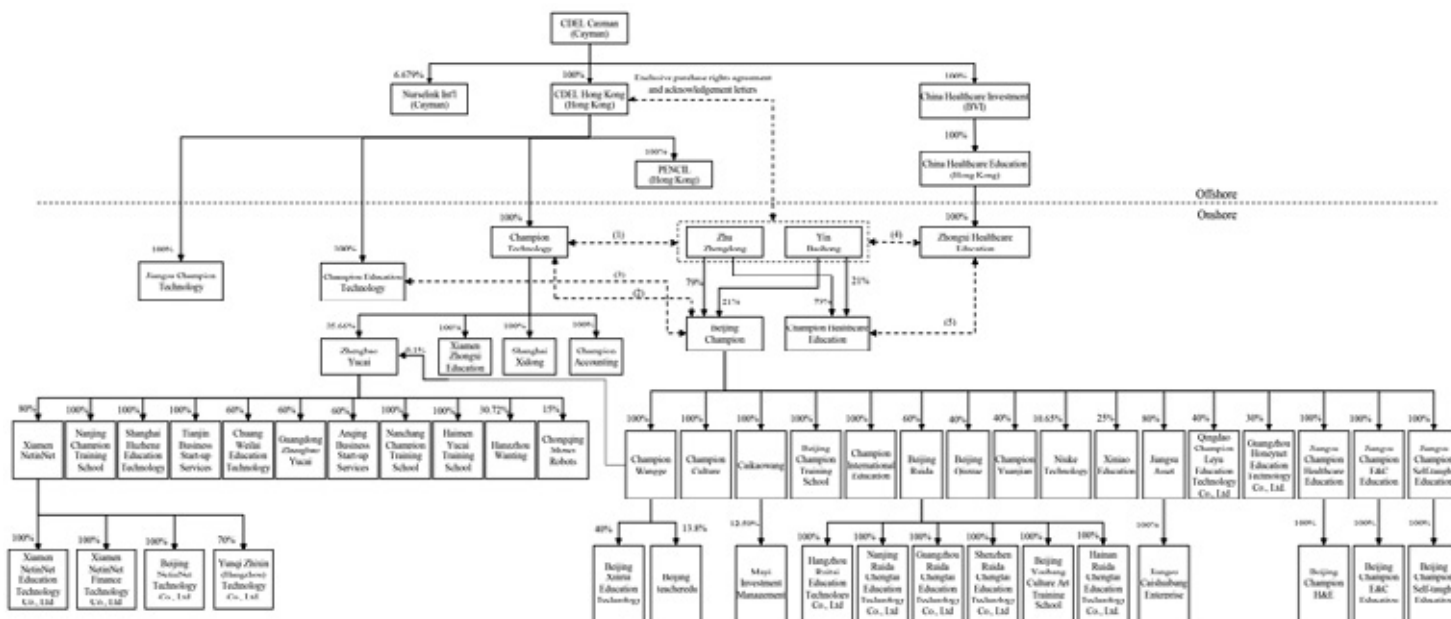
On November 4, 2017, SCNPC published the Decision of the SCNPC on Revising the "Accounting Law of the People's Republic of China" and Other Eleven Pieces of Laws, pursuant to which the requirement of accounting professional qualification to be engaged in accounting work is removed from the Accounting Laws. Such amendment became effective on November 5, 2017. On December 11, 2017, the Administrative Measures for the Qualifications of Accounting Practitioners was abolished.

### **C. Organizational Structure**

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

In June 2016, Zhengbao Yucai received approval from the National Equities Exchange and Quotation of China to list its shares on the New Third Board, an over-the-counter stock exchange in China. Due to the share issuance plan completed in March 2017, the equity interest of CDEL in Zhengbao Yucai was reduced from 60.1% to 35.8%. We have entered into an acting-in-concert agreement with Mr. Zhengdong Zhu, Mr. Liankui Hu and a partnership holding equity interest in Zhengbao Yucai (in which Mr. Zhengdong Zhu has a majority interest) as disclosed below. As a result of this arrangement, we have the power to direct the activities of Zhengbao Yucai, and accordingly, under U.S. GAAP, we consolidate Zhengbao Yucai's operating results in our consolidated financial statements. For risks associated with this contractual arrangement, see "Item 3.D. Key Information — Risk Factors — Mr. Zhengdong Zhu, our chairman and chief executive officer, beneficially owns a significant percentage of interest in our controlled company, Zhengbao Yucai, and, as a result, he has significantly greater influence over Zhengbao Yucai and its corporate actions relative to us and his interests may not be aligned with our interests." The shares of Zhengbao Yucai were voluntarily delisted from the New Third Board in April 2019.

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



- (1) Equity pledge agreements, powers of attorney, acknowledgement letters, tri-party agreement re VIE structure and letter of undertaking
- (2) Technical support and consultancy services agreement, courseware license agreement and letter of undertaking
- (3) Software license agreement and courseware production entrustment agreement
- (4) Equity pledge agreement, exclusive option agreement, powers of attorney, tri-party agreement re VIE structure and letter of undertaking
- (5) Exclusive business cooperation agreement and letter of undertaking

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

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

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



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

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

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

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

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

*Exclusive Business Cooperation Agreement*, dated December 28, 2015. Under this agreement, Zhongxi Healthcare Education provides Champion Healthcare Education with exclusive technical support, marketing and consultancy services relating to Champion Healthcare Education's online education business. The services rendered by Zhongxi Healthcare Education mainly include assisting in courseware creation and production, advising on company management and healthcare distance education, providing general technology support and technical personnel training, assisting in collection and research of market information, licensing domain names, trademarks and software and leasing equipment and properties for online education business. In return, Champion Healthcare Education pays Zhongxi Healthcare Education a quarterly service fee approved by Zhongxi Healthcare Education. In addition, Champion Healthcare Education undertook not to engage in any transactions that could materially affect Champion Healthcare Education's capital structure, assets, liabilities, rights or operations, without the prior written consent of Zhongxi Healthcare Education. Zhongxi Healthcare Education undertook to provide financial support at Champion Healthcare Education's request in a manner permitted by law. This agreement will remain effective until Zhongxi Healthcare Education terminates this agreement in writing.

*Equity Pledge Agreement*, dated December 28, 2015. Under this agreement, for the purpose to secure the payment obligations of Champion Healthcare Education under the exclusive business cooperation agreement described above, each of Champion Healthcare Education's shareholders, Mr. Zhu and Ms. Yin, pledged to Zhongxi Healthcare Education his or her entire equity ownership interests in Champion Healthcare Education. The pledge created under this agreement could only become effective after such pledge is registered with SAMR or its local office. We have registered the pledge created under this agreement with the Beijing office of SAMR. Upon the occurrence of certain events of default specified in this agreement, the pledgee may exercise its rights and foreclose on the pledged equity interest. Under this agreement, the pledgors may not transfer the pledged equity interests without the pledgee's prior written consent. This agreement will also be binding upon successors of the pledgors and transferees of the pledged equity interests. This agreement will remain effective until the discharge of Champion Healthcare Education's contractual obligations under the exclusive business cooperation agreement as described above.

*Letter of Undertaking from Champion Healthcare Education's Shareholders to Zhongxi Healthcare Education*, dated December 28, 2015. Pursuant to this letter addressed to Zhongxi Healthcare Education, the shareholders of Champion Healthcare Education undertook to, unless restricted by laws, regulations or legal procedures, (i) remit all dividends, interests, other distributions or remnant assets after liquidation, if any, they receive from Champion Healthcare Education to Zhongxi Healthcare Education without compensation, after paying the corresponding tax and any other required expenses, (ii) transfer all or part of their equity interests in Champion Healthcare Education to Zhongxi Healthcare Education at a nominal or minimal purchase price, in the event Zhongxi Healthcare Education exercises its exclusive option to acquire any or all of the equity interests in Champion Healthcare Education, (iii) remit to Zhongxi Healthcare Education all considerations they may receive from Zhongxi Healthcare Education's acquisition of any equity interests in Champion Healthcare Education, without compensation, after paying the corresponding tax and any other required expenses, and (iv) act in the best interest of Zhongxi Healthcare Education.

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

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

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

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

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

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

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

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

*Exclusive Option Agreement*, dated December 28, 2015. Pursuant to the exclusive option agreement entered into among Zhongxi Healthcare Education, Champion Healthcare Education and its shareholders, Zhongxi Healthcare Education or any third-party designated by it has the right to acquire, in whole or in part, the respective equity interests in Champion Healthcare Education of its shareholders when permitted by applicable PRC laws and regulations. This agreement will remain effective until the entire equity interests in Champion Healthcare Education are transferred to Zhongxi Healthcare Education.

*Powers of Attorney*, dated December 28, 2015. Pursuant to these powers of attorney, each shareholder of Champion Healthcare Education authorized Zhongxi Healthcare Education or any person it designates to (i) exercise all voting powers that such shareholder enjoys under the laws and the articles of association of Champion Healthcare Education, including the sale, transfer or pledge, in whole or in part, of such shareholder's equity interests in Champion Healthcare Education; (ii) nominate and appoint, on behalf of such shareholder, the legal representative, directors, supervisors, general manager, and other senior management of Champion Healthcare Education; (iii) execute the share transfer agreement as contemplated by the exclusive option agreement described above, and perform the equity pledge agreement and the exclusive option agreement described above; and (iv) authorize any third party to carry out any of the above actions. In addition, the shareholders undertook to refrain from exercising any of the abovementioned rights.

*Spouse Consent Letters*, dated December 28, 2015. The spouse of each shareholder of Champion Healthcare Education (i.e. Mr. Zhu and Ms. Yin) has entered into a spouse consent letter to acknowledge that he or she consents to the disposition of the equity interests held by his or her spouse in Champion Healthcare Education in accordance with the exclusive option agreement, the power of attorney and the equity pledge agreement described above, and any other supplemental agreement(s) may be consented by his or her spouse from time to time. Each such spouse further agrees that he or she will not take any action or raise any claim to interfere with the arrangements contemplated under the above mentioned agreements. In addition, each such spouse further acknowledges that any right or interest in the equity interests held by his or her spouse in Champion Healthcare Education do not constitute property jointly owned with his or her spouse and each such spouse unconditionally and irrevocably waives any right or interest in such equity interests.

*Tri-party Agreement re VIE Structure*, dated December 28, 2015. To secure the performance of the obligations under the powers of attorney and the letter of undertaking described above, Zhongxi Healthcare Education, Mr. Zhu, Ms. Yin and Champion Healthcare Education entered into the tri-party agreement re VIE Structure, pursuant to which Zhongxi Healthcare Education has the right to request Mr. Zhu or Ms. Yin to unconditionally transfer his or her entire equity interests in Champion Healthcare Education to Zhongxi Healthcare Education or its designated third party within a certain period of time required by Zhongxi Healthcare Education if Mr. Zhu or Ms. Yin breaches any provision of the power of attorney or the letter of undertaking. In addition, Zhongxi Healthcare Education may also request Mr. Zhu or Ms. Yin to provide satisfactory and full guarantee to the satisfaction of Zhongxi Healthcare Education and enter into a relevant guarantee contract proposed by Zhongxi Healthcare Education within a certain period of time required by Zhongxi Healthcare Education if Zhongxi Healthcare Education determines in its discretion that Mr. Zhu or Ms. Yin violates any provision of the powers of attorney or the letter of undertaking. If Mr. Zhu or Ms. Yin breaches this agreement, he or she shall compensate Zhongxi Healthcare Education for any and all economic losses directly or indirectly arising from his or her breach of this agreement, the powers of attorney and the letter of undertaking.

#### ***Other agreements among our subsidiaries and the controlled affiliates***

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

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

*Letter of Undertaking from Zhongxi Healthcare Education to Champion Healthcare Education*, dated December 28, 2015. Pursuant to this letter, Zhongxi Healthcare Education confirmed its obligation to provide financial support to Champion Healthcare Education if Champion Healthcare Education suffers any financial loss or critical operation adversity.

#### ***Agreement that provides us with effective control over the controlled company, Zhengbao Yucai and its subsidiaries***

*Acting-in-concert agreement* dated October 7, 2016. Mr. Zhengdong Zhu, Mr. Liankui Hu and a partnership holding equity interest in Zhengbao Yucai (in which Mr. Zhengdong Zhu has a majority interest) have entered into an acting-in-concert agreement with Champion Technology, requiring them to vote their shares as to key matters submitted to the shareholders of Zhengbao Yucai for approval in accordance with the instructions of Champion Technology.

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

Our principal executive offices are located in approximately 2,500 square meters of office space on the 18th floor, Xueyuan International Tower, No. 1 Zhichun Road, Haidian District, Beijing, 100083, China. We also own approximately 355 square meters, 16,200 square meters, and 367 square meters of office space in Hangzhou, Xiamen and Nanjing, China, respectively. We also lease approximately 48,400 square meters of office, training center and staff quarter space at various locations in China and Hong Kong. We believe that, if needed, additional space can be obtained on commercially reasonable terms to meet our future requirements.

## **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

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

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

### **A. Operating Results**

#### **Overview**

We believe that we are the leading provider of online education in China primarily focusing on professional education, as measured by total number of course enrollments in 2020. For the fiscal year ended September 30, 2020, we had total course enrollments of 4,255,000. As of September 30, 2020, our content library encompassed 265 course offerings, approximately 7,650 classes, and close to 44,000 hours of audio-video content across 13 subject areas. We believe our course participants are attracted to our high-quality, results-oriented courses; our students’ superior learning experience empowered and supported by our robust, comprehensive and easy-to-use proprietary online Learning Management System that can be accessed via both PC and mobile devices; and our comprehensive learning support and services. We believe these attributes result in better performance for our test preparation courses, as measured by higher than national average exam passage rates, and will help us further expand our leadership position in the online professional education market.

We focus our online professional education services in four main industries: accounting, healthcare, engineering & construction and legal education. In addition, we offer other professional education courses, such as online test-preparation courses for self-taught learners pursuing higher education diplomas or degrees, and accounting practical skills training courses for college students and working professionals. We also offer third-party developed online courses through our Online Open Learning Platform, a proprietary education platform that allows people to share their educational content and deliver live courses online. In May 2015 we launched our College Cooperation Program which enables us to expand our industry-leading online accounting educational content and services for professional examinations to college and university students, in partnership with colleges and universities. Our acquisition of Xiamen NetinNet in May 2016 complements our suite of learning solutions for the college market, and enables us to offer comprehensive accounting simulation-based learning content to college students, aimed at enriching their learning experience and complementing traditional college teaching methods. Our acquisition of Jiangsu Asset in November 2017 broadens our services to SMEs by introducing accounting and related advisory services and provides valuable internship opportunities to students in our College Cooperation Program. Our acquisition of Beijing Ruida in July 2018 further strengthens our legal education vertical by adding a leading Legal Professional Qualification Examination preparation business to our portfolio of education services. As of September 30, 2020, we operated 19 websites, including our main website [www.cdeledu.com](http://www.cdeledu.com) and 18 other websites, each dedicated to a specific industry, profession or discipline. Our online education courses accounted for 70.2%, 68.9% and 76.0% of our net revenues in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. In addition to traditional online courses, we offer live streaming accounting, healthcare, engineering & construction, and legal courses through an app available on Android and Apple iOS tablets and smart phones. Furthermore, we sell books and reference materials, offer offline business start-up training courses and offline accounting, healthcare, engineering & construction, and legal professional training courses, and provide courseware production services and platform production services for certain customers.

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

Our net revenues were \$166.7 million, \$211.8 million and \$209.6 million in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. We had net income attributable to CDEL of \$11.6 million, \$21.3 million and \$10.4 million in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. Our total course enrollments were 3,191,000, 3,793,000 and 4,255,000 for the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

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

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

Our results of operations may be affected by changes to the professional requirements applicable to the various fields covered by our courses. They may also be affected by changes in the timing, content and difficulty, or perceived difficulty, of exams covered by our courses, changes in continuing education requirements, changes in employment policy, suspension or cancellation of professional qualifications and certificates, and changes in the government subsidy policy applicable to our business start-up training courses. Exams covered by our courses may also, from time to time, be discontinued or postponed for reasons beyond our control, such as the outbreak of the COVID-19 pandemic, which may impact our revenues in certain periods. See “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our business could be adversely affected if there are changes in the perceived difficulty, requirements or formats of professional examinations, courses and continuing education in China, or if certain professional qualifications and certificates are cancelled by the government authorities.”, “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Changes in the government authorities’ subsidy policy with respect to our business start-up training courses could adversely affect our financial condition and results of operations.”, “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our business could be adversely affected if there are changes in the timing of release of examination policies.” and “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our financial performance and prospects could be affected by natural calamities or health epidemics.”

We have experienced and expect to continue to experience seasonality in revenues from online education services primarily due to seasonal changes in course enrollments and the timing of various exams, which are typically offered annually. We have also experienced seasonality in revenues since our acquisition of Xiamen NetinNet and Beijing Ruida in May 2016 and July 2018, respectively. See “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility in and adversely affect the price of our ADSs.”

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

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

- *Number of enrollments in our courses.*

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

We may from time to time, however, experience a decrease in course enrollments in certain course offerings if there is a perception within the related industries or professions that certain exams have become less difficult, or the content more routine and familiar, and as a result these exam takers may be less inclined to spend additional money on test preparation courses. Secondly, any government decisions to scale back, postpone, suspend, or cancel certain exams, combine exams or adopt measures that might reduce the number of exam participants may adversely impact our revenues. For example, starting from late November of 2016, the Department of Finance in certain provinces and cities suspended the Accounting Certificate Examination due to the proposed change in the related examination policy. As a result, because of the decrease in course enrollments, the revenue generated from the Accounting Certificate Exam, and accounting continuing education courses decreased by 71.3% and 24.6%, respectively, in fiscal year 2017, compared to fiscal year 2016. In November 2017, SCNPC published the Decision of the SCNPC on Revising the “Accounting Law of the People’s Republic of China” and Other Eleven Pieces of Laws, pursuant to which the requirement of accounting professional qualification to be engaged in accounting work or Accounting Certificate was canceled. In conjunction with the cancellation of the Accounting Certificate, the examination policy of Elementary APQE was released, stating that candidates possessing a high school diploma or above degree can take the Elementary APQE instead of holding an Accounting Certificate. As a result, the revenue generated from Accounting Certificate Exam courses was minimal since the cancellation of the Accounting Certificate. In addition, we may from time to time change our marketing strategy which may affect our course enrollments. For example, during fiscal year 2019, we devoted more of our marketing and selling resources to the promotion of our relatively higher value, longer duration premium and elite accounting classes. As a result, overall online course enrollments from test-preparation courses of our accounting vertical decreased by 12.6% in fiscal year 2019, compared with fiscal year 2018.

- *Fees for our courses.*

Our net revenues are also affected by the amount of fees we charge for our courses, which depends on overall demand, the prices and availability of competing courses, perception of the quality and effectiveness of our courses and the income levels that our course participants expect to achieve upon passing the related licensure and certification exams. For example, our longer duration premium and elite accounting classes, which were launched in April 2018, have relatively higher average selling prices and were widely accepted by our customers. We may, however, experience pricing pressure as we expand our course offerings into new areas, or new segments and exams within existing areas that we cover, in an effort to attract new course participants. Additionally, our net revenues are affected by the percentage of discounts we provide to regional sales agents as our revenue from this source is recorded net of discount. In addition, net revenues generated from our business start-up training courses are dependent on our ability to meet government stipulated conditions under their subsidy policies. Such stipulated conditions include the passage rate of our course participants' business proposals as evaluated by the relevant government authorities, the business start-up rate and the employment rate of our business start-up course participants.

- *Our ability to expand the range of courses and other services.*

Our ability to address market needs by expanding the range of our course offerings and other services has a direct impact on our ability to grow our course enrollments. Diversifying our sources of revenues also helps protect us from potential reduced course enrollment due to down-turns in certain industries or professions. To date, our accounting courses remain the largest and most important of all our course offerings in terms of revenue and number of course enrollments. Although we expect this to continue due to the importance of professional requirements in the accounting industry, we will continue to expand our course offerings in other areas to diversify and further grow our revenues. Over the past several years, we have developed our healthcare, engineering & construction and legal course offerings. However, the expansion of our courses, services and products in terms of the types of offerings may not succeed due to competition, our failure to effectively market our new courses, services and products or to maintain their quality and consistency, or other factors. Furthermore, we may not be able to develop and offer additional content on commercially reasonable terms and in a timely manner, or at all, to keep pace with changes in market requirements. For example, we've operated the "Tax School Program" since 2013. This business has not yet generated reasonable returns after several years of investments. Therefore, in November 2018, we decided to dispose of 60% interest in the Tax School Program to its management team, which can be more flexible in formulating future business development strategies.

- *Impact of business acquisitions and strategic investments.*

Our ability to successfully identify, execute, integrate and manage new alliances, acquisitions and investments can have a significant effect on our results of operations. We have pursued and may continue to pursue strategic alliance, acquisition and investment opportunities to increase our service offerings and expand our growth; however, such strategic alliances, acquisitions and investments may not generate the financial results we expect and may even result in losses. See "Item 4.A. Information on the Company — History and Development of the Company" for our recent acquisitions and strategic investments. For example, in the fiscal year ended September 30, 2020, we recognized an impairment loss from long-term investments arising from our investment in Beijing Xinrui Education Technology of \$0.9 million.



### **Impact of COVID-19**

The outbreak of the COVID-19 pandemic around the globe has had and is expected to continue to have an adverse impact on our operations and financial performance. During the onset of the COVID-19 pandemic, in order to support our students across China with high-quality online professional education at a time when offline classes were suspended, we provided free online courses to students in Hubei province, the initial epicenter of the epidemic in China, and significant discounts for certain online exam preparation courses to students outside Hubei. While our socially responsive actions resulted in a surge in enrollment in fiscal year 2020, our cash receipts from online course registration have declined significantly, due to the postponement or suspension of certain professional certification examinations in accounting, healthcare, engineering & construction, and legal fields. In particular, cash receipts from online course registration decreased by 34.5%, 31.3% and 12.8% in the second, third and fourth quarter of fiscal year 2020, respectively, compared with the prior periods of fiscal year 2019. Revenues from our other services were also impacted significantly by the COVID-19 pandemic. In particular, revenues from business start-up training services and sale of learning simulation software decreased by 21.1% and 26.7%, respectively, in fiscal year 2020 compared with fiscal year 2019.

With the continued sporadic outbreak of COVID-19 in Hebei, Beijing and other regions across China, professional certification examinations in these regions may be further postponed or cancelled, which may continue to adversely affect our business operations, financial condition and operating results for fiscal year 2021.

### **Description of Key Line Items**

#### **Net Revenues**

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

	Year Ended September 30,					
	2018		2019		2020	
	\$	% of net revenues	\$	% of net revenues	\$	% of net revenues
	(In thousands, except for percentages)					
Net Revenues						
Online education services	117,026	70.2%	145,917	68.9%	159,338	76.0%
Books and reference materials	10,213	6.1%	27,372	12.9%	22,061	10.5%
Others	39,429	23.7%	38,533	18.2%	28,159	13.5%
Total net revenues	166,668	100.0%	211,822	100.0%	209,558	100.0%

#### **Online Education Services**

We derive most of our revenues from the provision of online education services. Our online education services consist of online professional education and test preparation courses, test preparation courses for self-taught learners pursuing higher education degrees, continuing education and professional development courses. Our professional training courses cover a wide range of industries, including accounting, healthcare, engineering & construction, legal and others.

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

Our online courses are mainly available in the course formats of regular class, premium class and elite class in fiscal years 2018, 2019 and 2020. See "Item 4.B. Business overview — Our Online Education Services — Course Formats."

#### **Books and Reference Materials**

We primarily sell our own proprietary learning materials relating to accounting, healthcare, engineering & construction, and legal professional courses and exams through third-party bookstores and distributors across China and directly through our online bookstore and our offices in Beijing. The sale of books and reference materials on topics related to our course subject matter complements our online course offerings, supplements the learning experience of our course participants, helps us to build brand recognition and loyalty among our course participants, and promotes our expertise and reputation in various professional fields. To promote our online courses, we also sell some of our books and reference materials with certain privileges which allow course participants to get a certain number of electronic books and take a specified number of online courses for free.

## Others

We derive other net revenues mainly from the provision of offline training courses, courseware production services, platform production services, accounting and consulting services, and sale of learning simulation software to the college market.

## Cost of Sales

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

	For the Year Ended September 30,					
	2018		2019		2020	
	\$	% of net revenues	\$	% of net revenues	\$	% of net revenues
	(In thousands of \$, except for percentages)					
Net Revenues	166,668	100.0%	211,822	100.0%	209,558	100.0%
Cost of sales:						
Cost of services and others	(78,936)	(47.4)%	(85,252)	(40.2)%	(81,976)	(39.1)%
Cost of tangible goods sold	(8,947)	(5.3)%	(19,489)	(9.2)%	(19,622)	(9.4)%
Total cost of sales	(87,883)	(52.7)%	(104,741)	(49.4)%	(101,598)	(48.5)%
Gross profit and gross margin <sup>1</sup>	78,785	47.3%	107,081	50.6%	107,960	51.5%

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

## Cost of Services and Others

Cost of services and others accounted for 47.4%, 40.2% and 39.1% of our net revenues in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. Cost of services and others are mainly composed of salaries and related expenses for our tutors, course and content development, website maintenance and information technology technicians and other employees, fees paid to our course lecturers, depreciation and amortization expenses, server management and bandwidth leasing fees paid to third-party providers, rental and related expenses, and other miscellaneous expenses. Fees paid to lecturers comprised a significant portion of our cost of services and others because we allocate significant resources to contract with high-quality lecturers. The number of lecturers producing online courses for us was 513, 541 and 527 in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. Our online platform enables us to achieve greater economies of scale than traditional offline programs that are limited by fixed teacher-student ratios as we are able to increase the number of course participants without necessarily increasing the number of our lecturers. Our fees paid to online lecturers as a percentage of our net revenues from online education services increased in the fiscal year ended September 30, 2020, as compared to the fiscal year ended September 30, 2019, primarily due to the COVID-19 pandemic which adversely impacted the cash receipts from online course registration, described in more detail in “— Specific Factors Affecting Our Results of Operations — Impact of COVID-19.” As a result, the revenue growth from online education services was materially and adversely impacted, and was lower than the growth of fees paid to online lecturers. Our fees paid to online lecturers as a percentage of our net revenues from online education services increased slightly in the fiscal year ended September 30, 2019, as compared to the fiscal year ended September 30, 2018, primarily due to higher-than-expected cash receipts from our longer duration elite classes, representing 29.0% of cash receipts from online course registration in fiscal year 2019, compared with 8.9% in fiscal year 2018. As a result, overall revenue was recognized on average over a longer expected period of time under U.S. GAAP ASC606 in fiscal year 2019. Our fees paid to offline lecturers decreased in the fiscal year ended September 30, 2020, as compared to the fiscal year ended September 30, 2019, primarily due to the impact of the COVID-19 pandemic during which offline classes were suspended. Our fees paid to offline lecturers increased in the fiscal year ended September 30, 2019, primarily due to 12-months of lecture fees associated with offline Legal Professional Qualification Examination test preparation courses offered by Beijing Ruida, compared to 3-months of such lecture fees in the fiscal year ended September 30, 2018. This increase was partially offset by the decrease in lecture fees associated with the “Tax School Program” which we disposed in December 2018.

Our tutors, course and content development, website maintenance and information technology technicians and other employees also play a critical role in our course development and delivery. We maintain a large, well-trained pool of tutors to answer questions from course participants submitted through our online question and answer board, usually within a 24-hour time period. Our tutors numbered 521 (including 215 part-time tutors), 226 (including 23 part-time tutors) and 286 (including 28 part-time tutors) as of September 30, 2018, 2019 and 2020, respectively. In addition, we allocate significant resources to retain course production technicians capable of creating high quality high-definition audio-video course materials and other interactive features for our online courses. The number of our course production technicians was 99, 90 and 97 as of September 30, 2018, 2019 and 2020, respectively. We have a significant number of information technology technicians capable of developing a reliable, scalable and secure online platform and technology infrastructure to support our services. The number of our information technology technicians was 205, 173 and 246 as of September 30, 2018, 2019 and 2020, respectively. We also have a separate team of 165 information technology technicians for the development of learning simulation software as of September 30, 2020. To date, salaries and related expenses constitute a large portion of our cost of services and others.

### ***Cost of Tangible Goods Sold***

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

### **Operating Expenses**

Our operating expenses consist of selling expenses, general and administrative expenses, and impairment of goodwill, if any.

#### ***Selling Expenses***

Selling expenses accounted for 26.8%, 29.0% and 33.3% of our net revenues in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. Our selling expenses consist primarily of salaries and related expenses of our customer service staff and sales and marketing staff, commissions paid to our agents, advertising and promotion expenses, rental and related expenses, promotional materials, and other selling expenses. The salaries of our customer service staff were significant as we maintained the number of our customer service staff at a high level to serve a greater number of course participants and other customers. The salaries of our sales and marketing staff were also significant as we maintained the number of our sales and marketing staff at a high level to promote our business, and to generate sales through our direct sales efforts. Following the acquisition of Xiamen NetinNet and Beijing Ruida in May 2016 and July 2018, respectively, we had additional teams of customer service staff and sales and marketing staff for the learning simulation software segment and Legal Professional Qualification Examination test preparation courses offering, respectively.

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

Our general and administrative expenses accounted for 12.8%, 11.8% and 12.2% of our net revenues in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. Our general and administrative expenses consist primarily of administrative staff compensation and benefits, professional fees, depreciation and amortization, rental and related expenses, allowance for doubtful accounts, share-based compensation expenses and other miscellaneous expenses. Staff benefits include pension, medical insurance, unemployment insurance, work-related injury insurance and housing subsidies. Other miscellaneous expenses include travel, office, communication and entertainment expenses.

## Taxation

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

CDEL Hong Kong is incorporated in Hong Kong and provides accounting and consulting services. No provision for Hong Kong profits tax has been made as CDEL Hong Kong has no assessable profits in Hong Kong in the fiscal years ended September 30, 2018, 2019 and 2020. In addition, no Hong Kong withholding tax will be imposed on any payments of dividends distributed by CDEL Hong Kong to us.

PENCIL is incorporated in Hong Kong as a wholly-owned subsidiary of CDEL Hong Kong. PENCIL has not conducted any substantive operations since its inception. No provision for Hong Kong profits tax has been made as PENCIL has no assessable profits in Hong Kong in the fiscal years ended September 30, 2018, 2019 and 2020. In addition, no Hong Kong withholding tax will be imposed on any payments of dividends distributed by PENCIL to us through CDEL Hong Kong.

China Healthcare Investment is incorporated in the British Virgin Islands as our wholly-owned subsidiary. Under the current law of the British Virgin Islands, China Healthcare Investment is not subject to income or capital gains tax.

China Healthcare Education is incorporated in Hong Kong as a wholly-owned subsidiary of China Healthcare Investment. China Healthcare Education has not conducted any substantive operations since its inception. No provision for Hong Kong profits tax has been made as China Healthcare Education has no assessable profits in Hong Kong in the fiscal years ended September 30, 2018, 2019 and 2020. In addition, no Hong Kong withholding tax will be imposed on any payments of dividends distributed by China Healthcare Education to us through China Healthcare Investment.

## Enterprise Income Tax

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

	Years ended September 30,		
	2018	2019	2020
	\$	\$	\$
	(in thousands)		
Current tax expense	5,717	7,060	10,543
Deferred tax expense (benefit)	(3,410)	1,061	(5,083)
	2,307	8,121	5,460

Champion Technology, Beijing Champion, Zhengbao Yucai, and Xiamen NetinNet obtained preferential tax treatments as “high and new technology enterprises” under EIT Law that resulted in lower tax rates. Champion Technology was and will be subject to the tax rate of 15% from 2010 through 2022, Beijing Champion was and will be subject to the tax rate of 15% from 2008 through 2022, Zhengbao Yucai was subject to the tax rate of 15% from 2012 through 2020, and Xiamen NetinNet was and will be subject to the tax rate of 15% from 2014 through 2022. Our other PRC entities are mainly subject to the standard income tax rate of 25%. In addition, for some of our small and micro businesses having annual taxable income of RMB1 million or less, 25% shall be included in the taxable income, and the enterprise income tax shall be paid at the rate of 20%. See “Risk Factors — Risks Relating to Conducting Business in China — The discontinuation of any of the preferential tax treatments currently available to our PRC subsidiary, Champion Technology, controlled companies, Zhengbao Yucai and Xiamen NetinNet, and affiliated entity, Beijing Champion, could materially increase our tax liabilities.”

For our PRC subsidiaries' earnings generated after 2008 that were available for distribution, provisions of \$0.2 million, \$0.5 million and \$0.3 million have been made in the fiscal years ended September 30, 2018, 2019 and 2020, respectively, for the PRC dividend withholding taxes with respect to the distribution of these earnings to CDEL Hong Kong. See "Risk Factors — Risks Relating to Conducting Business in China — We may not be able to obtain certain treaty benefits on dividends paid to us by our PRC subsidiaries through our Hong Kong Subsidiaries."

Under the EIT Law, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered a PRC resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term "de facto management bodies" as establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise. The SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore-incorporated enterprise is located in China. In addition, the SAT issued a bulletin on July 27, 2011, effective September 1, 2011, providing more guidance on the implementation of Circular 82. This bulletin clarifies matters including residence status determination, post-determination administration and competent tax authorities. Although both Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups and not those controlled by PRC individuals or foreign corporations, the determination criteria set forth in Circular 82 and the bulletin may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises and how the administration measures should be implemented with respect to such enterprises, regardless of whether they are controlled by PRC enterprises or PRC individuals. Although we do not believe that our legal entities organized outside of the PRC constitute PRC resident enterprises, it is possible that the PRC tax authorities could reach a different conclusion. See "Risk Factors — Risks Relating to Conducting Business in China — Under China's EIT Law, we may be classified as a 'resident enterprise' of China. Such classification could result in unfavorable tax consequences to us and our non-PRC shareholders."

#### ***Value-Added Tax and Related Surcharges***

We are subject to value-added tax and related surcharges on the revenues earned from provision of education services and sale of learning simulation software. To date, we are mainly subject to 3.36%-6.72% value-added tax and related surcharges on the revenues earned from provision of education services and 14.56% (17.92% before April 2019 and 19.04% before May 2018) value-added tax and related surcharges on the revenues earned from sale of learning simulation software. We recorded revenues net of all value-added tax and related surcharges in the consolidated statements of operations.

Normally, the applicable tax rate of VAT and related surcharges are 3.36% and 6.72% for a small-scale taxpayer and a general taxpayer, respectively. On June 18, 2016, the MOF and the SAT promulgated the Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value-Added Tax in the Policy of Reinsurance, Real Estate Leasehold and Non-degree Education, or Circular No. 68 effective on May 1, 2016, pursuant to which general taxpayers providing non-academic education services may apply a simple method for calculating the tax payable amount in accordance with the tax rate of 3%.

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

In addition, in accordance with the relevant tax laws in the PRC, VAT is also calculated based on the sales value of books and reference materials and is payable by the purchaser. Revenues are recognized net of all VAT imposed by governmental authorities and collected from customers concurrent with revenue generating transactions. Pursuant to the circulars jointly issued by MOF and SAT on December 25, 2013 and June 5, 2018, respectively, the proceeds received from customers for sales related to books and reference materials are exempt from VAT from January 1, 2013 through December 31, 2017, and from January 1, 2018 through December 31, 2020, respectively. As a result, Beijing Champion and Zhengbao Yucai enjoyed and continue to enjoy this tax exemption from March 2014 and May 2014, respectively, upon the filing of tax exemption applications to the state tax bureau. Such VAT exemption is also applicable to Champion Culture and Champion Accounting from January 2016 and May 2016, respectively. Beijing Ruida, Jiangsu Champion Healthcare Education, and Jiangsu Champion E&C Education also enjoy this tax exemption through December 31, 2020.

Since January 2020, in accordance with the Announcement on Tax Policies to Support Prevention and Control of Pneumonia Caused by Novel Coronavirus Infection issued by MOF and SAT, or the Cai Shui [2020] No.8 and Cai Shui [2020] No.28, due to the COVID-19 virus, the VAT from providing daily life services, including the education services from Beijing Champion, Beijing Ruida, Jiangsu Champion Healthcare Education, Jiangsu Champion E&C Education, and Jiangsu Champion Self-taught Education, was exempted starting on January 1, 2020 until December 31, 2020.

### **Critical Accounting Policies**

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

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

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

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

## ***Revenue Recognition***

On October 1, 2018, we adopted ASC Topic 606 Revenue from Contracts with Customers (“Topic 606”), applying the modified retrospective method to all contracts that were not completed as of October 1, 2018. Results for the fiscal years ended September 30, 2019 and 2020 are presented under Topic 606, while results for the fiscal year ended September 30, 2018 are not adjusted and continue to be reported under ASC Topic 605, Revenue Recognition (“Topic 605”).

Revenue is recognized when control of promised goods or services is transferred to our customers in an amount of consideration to which we expect to be entitled to in exchange for those goods or services. We follow the five steps approach for revenue recognition under Topic 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) we satisfy a performance obligation.

*Online education services.* The online education services provided by us to our customers is an integrated service, including audio-video course content, mock examinations and online chat rooms during the subscription period. Audio-video course content, mock examinations and online chat rooms are highly interdependent and interrelated in the context of the contract with the online education services. Therefore, we determined that the online education services represent a single performance obligation.

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

The online courses using the non-refundable course model are mainly comprised of regular classes and premium classes. In addition, the non-refundable course model also includes insured elite classes, which are refundable to the students through a third party insurance company. The revenues for the regular classes are recognized on a straight-line basis over the subscription period from the month in which the customers enroll in the courses to the month in which the subscribed courses terminate. For premium classes, if the course participants fail to pass the course examination and certain pre-agreed conditions are met, the participants can retake the same premium course for free for the following year or years. For the insured elite classes, if the course participant fails to pass the course examination and certain pre-agreed conditions are met, the participant can retake the same premium course for free for the following year or years, and enjoy the refund privilege covered by an independent insurance company. Under Topic 605, we recognized the discount offered for the retake course proportionally as a deduction to revenue recognized for each class the participants take. Upon the adoption of Topic 606, we recognize the revenue related to the premium and insured elite classes over the expected service period based on the estimated historical passage rates on a portfolio basis.

The online courses using the refundable course model are mainly comprised of uninsured elite classes whereas we are obligated to refund the tuition fee or provide the students with a right to retake the course if the participants complete the courses and fail the professional exams and their scores are within a range provided for in the agreement. The participants must notify us within a pre-agreed period after the professional examinations scores are released in order to be eligible for the refund or the right to retake the course. Under Topic 605, the proceeds from the refundable course model were initially recorded as Refundable fees in the consolidated balance sheet and were recognized upon the expiration of the participants’ right to receive a refund or ratably over the retake course period when the participants decide to retake the course before the expiration of such right. Upon the adoption of Topic 606, we estimate the variable consideration to be earned based on the historical refund ratio on a portfolio basis using the expected value method and record a refund liability based on estimated refunds to be paid to eligible students. We further recognize revenue over the expected service period based on the estimated historical passage rates on a portfolio basis. Most of the course participants pay course fees via online payment systems provided by third parties including internet debit or credit card payment systems and other third-party payment systems. Some participants may choose to enroll for online courses through the use of prepaid study cards which are purchased from distributors. We sell to our regional distributors prepaid study cards at a discount to the face value of the cards. Revenues are recorded using the after-discount selling price of the cards and recognized over the period the online course is available to the customers, which generally is from the month in which the customers enroll in the courses to the month in which the subscribed courses terminate. Additionally, based on the history of usage of prepaid study cards, any breakage related to prepaid study cards that are not activated or that have not been used to enroll in courses is insignificant.

We offer volume discounts to our regional distributors for purchases over a specified amount of prepaid study cards during a specified period of time, generally one year. The after-discount prices of the study cards paid by the regional distributors to us are recognized as deferred revenue. Under Topic 605, we deferred a portion of revenue of the prepaid study cards based on the maximum potential amount of discount provided to the distributors. Revenue was recognized during the remaining period the online course was available to the user who enrolls using the study card or was recognized immediately if the related online course has been completed or the study card expired. Under ASC 606, volume discounts are considered a form of variable consideration. Accordingly, volume discounts are estimated and recognized based on historical experience and adjusted based on actual purchase volumes at each reset period.

We also provide course enrollment services and our online platform to government agencies that conduct continuing education services through our websites. We earn service fees as a percentage of total tuition fees based on the agreements entered into with the government agencies. Each contract of these services is accounted for as a single performance obligation, which is satisfied ratably over the service period. Service fees received are initially recorded as deferred revenue and are recognized as revenue on a straight line basis over the subscription period based on terms of the agreements.

*Books and reference materials.* We sell books and reference materials to end users directly or through distributors. Revenues relating to such sales are recorded when control of the promised goods is transferred to the customers, in an amount that reflects the consideration we expect to be entitled to in exchange for the goods. Inventory costs of goods delivered to distributors for which revenues have been deferred are presented as “deferred costs” on the consolidated balance sheets.

We also sell books and reference materials together with study cards which allow the customers to take a certain number of online courses for no additional charge, and the customers can also get a certain number of electronic books for free. We determine that books and online course services represent two separate performance obligations. We allocate revenues to each performance obligation based on their relative selling prices. The relative selling prices are based on the observable price sold on a standalone basis, if available. If not, we estimate the relative selling price based on internal pricing models.

*Others.* We derive other revenue mainly from the sale of learning simulation software, the provision of offline professional training and others.

We recognize revenues from sales of learning simulation software, which are self-developed learning simulation packaged software, when control of the software is transferred to our customers in an amount of consideration to which we expect to be entitled to in exchange for the software. We have no significant remaining obligation with respect to the software, except for the warranty related obligations for software, of which the related costs are estimated upon the acceptance of the customers.

Revenues from offline professional training are recognized proportionately when the training courses are delivered. Each contract of these services is accounted for as a single performance obligation which is satisfied ratably over the service period. For offline training sponsored by government authorities related to business start-up training services, the tuition fees of the training participants are subsidized by the government. Qualified enrollments and the fees to be earned cannot be determined until the confirmation from government authorities regarding the number of students and fees is received by us, which is after the completion of services. Therefore, revenues from such services are recognized upon the receipt of confirmations from government authorities, when all the other revenue recognition criteria have been met. Revenues from offline training sponsored by government authorities were insignificant during the year ended September 30, 2020.

We recognize revenues from other services, including accounting and consulting services, courseware production services, and platform production services when the services are delivered.



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

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

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss based on the fair value of the assets. We did not record impairment losses on our long-lived assets in the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

### **Goodwill**

Goodwill represents the cost of an acquired business in excess of the fair value of identifiable tangible and intangible net assets purchased. We assign all the assets and liabilities of an acquired business, including goodwill, to reporting units. As of September 30, 2020, we had three reporting units: professional education service, business start-up training service, and sale of learning simulation software. We perform our goodwill impairment test on September 30th of each year. Impairment was tested using a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill.

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

The following table sets forth the details of goodwill impairment test as of September 30, 2020:

	<u>Professional education service</u>	<u>Business start-up training service(*)</u>	<u>Sale of learning simulation software</u>	<u>Total</u>
			(in thousands of \$)	
Estimated fair value	276,533	N/A	48,604	325,137
Carrying value net	87,710	N/A	41,399	129,109

Because the fair values of both the professional education service and sale of learning simulation software reporting units as of September 30, 2020 exceed their carrying amounts, no second step test was performed.

\* Because the carrying amount of business start-up training service reporting unit as of September 30, 2019 exceeds its fair value, we recorded an impairment charge of \$1.5 million related to business start-up training services during the fiscal year ended September 30, 2019.

In determining the fair values of our reporting units as of September 30, 2020, we considered the discounted cash flow method, or DCF, of the income approach to be more reliable than other approaches. Publicly available information regarding our market capitalization was also considered in assessing the reasonableness of the aggregate fair value of all the reporting units estimated using the income approach valuation methodology. The discounted cash flow for each reporting unit was projected based on financial forecasts developed by management for planning purposes. Cash flows beyond the forecast periods were estimated using a terminal value calculation, which incorporated historical and forecasted financial trends for each reporting unit. Specifically, the income approach valuation included a cash flow discount rate at 12.5%-15% and a terminal value growth rate at 3% -3.5%.

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

### ***Income taxes***

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

For uncertainty in tax positions, we recognize the impact of a tax position in the financial statements if that position is more likely than not of being sustained upon audit by the tax authority, based on the technical merits of the position. Based on this assessment, as of September 30, 2018, 2019 and 2020, respectively, we have recognized an approximately \$0.2 million, \$0.2 million and \$0.2 million accrual for unrecognized tax benefits which is included in the account of “accrued expenses and other liabilities.” The final outcome of the tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of statutes of limitation. We recognize, if any, interest related to unrecognized tax benefit in interest expense and penalties in other expenses. Changes in relevant tax laws, and our judgments, assumptions and estimates relative to the current provision for income tax could have resulted in material differences in the amount of income taxes provided in our consolidated financial statements.

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

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

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

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

### ***Share-based Compensation Expenses***

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

The total incremental compensation expense resulting from the modifications of the exercise price and/or vesting period of all outstanding share options under our share incentive plans is recognized as compensation cost on the date of modification for vested awards and over the remaining requisite service period for unvested awards for such employees, officers and non-employees, respectively. In addition, the unamortized compensation expense resulting from the cancellation of share options under our share incentive plans is recognized as an expense upon cancellation.

We estimated the fair value of each option award granted to employees, officers and non-employees under the Prior Plan and the fair value of each option award granted to non-executive directors, officers and employees under the New Plan using the relevant and appropriate Option Pricing Model. We use the quoted market price of our ADSs at each measurement date to measure the fair value of nonvested shares we granted to directors, officers and employees. We did not grant option awards during the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

Historically, we estimated forfeitures at the time of grant based on our historical experiences and record share-based compensation expenses only for those awards that are expected to vest. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of share-based compensation expense to be recognized in future periods. Starting from October 1, 2017, we have elected to account for forfeitures as they occur rather than applying an estimated forfeiture rate to share-based compensation expenses on a prospective basis. The amount of compensation expenses recognized at any date is at least equal to the portion of the fair value of the awards that are vested as of that date.

### ***Consolidation of Variable Interest Entity***

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

We also have entered into contractual arrangements with Champion Healthcare Education and its shareholders such that Champion Healthcare Education is considered a variable interest entity for which we are considered its primary beneficiary. We believe that the powers of attorney are valid, binding and enforceable under existing PRC laws and regulations and enable our subsidiary, Zhongxi Healthcare Education, to vote on all matters requiring the shareholder approval of Champion Healthcare Education. We also believe that the exclusive option agreement provides us with a substantive kick out right. More specifically, we believe that the terms of the exclusive option agreement are currently exercisable and legally enforceable under current PRC laws and regulations, and believe that the minimum amount of consideration permitted by the applicable PRC law to exercise the exclusive option does not represent a financial barrier or disincentive for us to currently exercise our rights under the exclusive option agreement. Our rights under the powers of attorney and the exclusive option agreement give us the power to control the shareholders of Champion Healthcare Education and thus the power to direct the activities that most significantly impact Champion Healthcare Education's economic performance. We believe that our ability to exercise control, together with the exclusive business cooperation agreement and the equity pledge agreement, give us the rights to receive substantially all of the economic benefits from Champion Healthcare Education in consideration for the services provided by Zhongxi Healthcare Education. Accordingly, as the primary beneficiary of Champion Healthcare Education and in accordance with U.S. GAAP, we are able to consolidate Champion Healthcare Education's financial results, and assets and liabilities in our consolidated financial statements. Champion Healthcare Education has not started conducting any business since its incorporation. As a result, no economic benefits of Champion Healthcare Education are available to date for transfer to our PRC subsidiary, Zhongxi Healthcare Education.

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

We are a holding company with no material operations of our own. We conduct substantially most of our operations in China through contractual arrangements with our variable interest entities, and their shareholders. See "Item 4.C. Information on the Company — Organizational Structure" for a summary of these contractual arrangements. In the fiscal years ended September 30, 2018, 2019 and 2020, our variable interest entities and their subsidiaries contributed in aggregate 91%, 87% and 94% respectively, of our total net revenues. As of the fiscal years ended September 30, 2019 and 2020, our variable interest entities and their subsidiaries accounted for an aggregate of 57% and 68%, respectively, of our total assets, and 75% and 88%, respectively, of our total liabilities.

#### ***Equity Method Investments***

Investee companies over which we have the ability to exercise significant influence, but do not have a controlling interest, are accounted for using the equity method. Significant influence is generally considered to exist when we have an ownership interest in the voting stock of the investee between 20% and 50%. Other factors, such as representation on the investee's board of directors, voting rights and the impact of commercial arrangements, are also considered in determining whether the equity method of accounting is appropriate.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary. We estimated the fair value of the investee company based on comparable quoted prices for similar investments in the active market, if applicable, or the discounted cash flow approach, which requires significant judgment and assumptions, including the estimation of future cash flows, which is dependent on internal forecasts, the estimation of the long term growth rate of a company's business, the estimation of the useful life over which cash flows will occur, and the determination of the weighted average cost of capital. We recorded \$0.3 million, \$6.4 million and \$0.9 million impairment losses on our equity method investment in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. The impairment loss we recorded during the fiscal year ended September 30, 2020 was mainly due to the going concern issue of one of our investees.

### ***Equity securities without readily determinable fair values***

Starting on October 1, 2018, with the adoption of ASU 2016-01, we elected a practicability exception to fair value measurement for the equity securities without readily determinable fair values, under which these investments are measured at cost, less impairment, plus or minus observable price changes of an identical or similar investment of the same issuer with fair value change recorded in the consolidated statements of operations. Prior to October 1, 2018, investee companies over which we did not have significant influence or a controlling interest were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment. We review our equity securities without readily determinable fair value at each reporting period. If a qualitative assessment indicates that the investment is impaired, we estimate the investment's fair value in accordance with the principles of ASU No. 2011-4: Fair Value Measurement (ASC 820). If the fair value is less than the investment's carrying value, we recognize an impairment loss equal to the difference between the carrying value and fair value in the consolidated statement of operations. We recorded nil, \$0.5 million and nil impairment losses on our equity securities without readily determinable fair value in the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

### ***Available-for-sale Securities Investments***

For investments in investees' stocks which are determined to be debt securities, we account for them as long-term available-for-sale investments when they are not classified as either trading or held-to-maturity investments.

Available-for-sale investments are carried at their fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income.

We review our investments for other-than-temporary impairment based on the specific identification method. We consider available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds the investment's fair value, we consider, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, our intent and ability to hold the investment, and the financial condition and near term prospects of the investees. We recorded \$2.5 million, nil and nil impairment losses on our available-for-sale investments in the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

### ***Business Combinations***

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any noncontrolling interests of the acquiree at the acquisition date, if any, are measured at their fair values as of the acquisition date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree and fair value of previously held equity interest in the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition. Acquisition-related expenses and restructuring costs are expensed as incurred.

Where the consideration in an acquisition includes contingent consideration, and the payment of which depends on the achievement of certain specified conditions post-acquisition, the contingent consideration is recognized and measured at its fair value at the acquisition date and is recorded as a liability. It is subsequently carried at fair value with changes in fair value reflected in earnings.

In a business combination achieved in stages, the previously held equity interest is remeasured in the acquiree immediately before obtaining control at its acquisition-date fair value and the remeasurement gain or loss, if any, is recognized in the consolidated statements of operations.

### ***Operating leases***

Before October 1, 2019, we adopted ASC Topic 840 (“ASC 840”), Leases, and each lease was classified at the inception date as either a capital lease or an operating lease.

On October 1, 2019, we adopted New Leasing Standard (“ASC 842”), using the modified retrospective transition method resulting in the recording of operating lease right-of-use (ROU) assets of \$36.5 million and operating lease liabilities of \$33.2 million upon adoption. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. The adoption of the new guidance did not have any effect on the consolidated statements of operations.

We determine if an arrangement is a lease or contains a lease at lease inception. Operating leases are required to record in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. We have elected the package of practical expedients, which allows us not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. We also elected the practical expedient not to separate lease and non-lease components of contracts. Lastly, we also have elected to utilize the short-term lease recognition exemption and, for those leases that qualified, we did not recognize operating lease ROU assets or operating lease liabilities.

As the rate implicit in the lease is not readily determinable, we estimate its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated in a portfolio approach to approximate the interest rate on a collateralized basis with similar terms and payments in a similar economic environment. Our leases often include options to extend and lease terms include such extended terms when we are reasonably certain to exercise those options. Lease terms also include periods covered by options to terminate the leases when we are reasonably certain not to exercise those options. Lease expense is recorded on a straight-line basis over the lease term.

### ***Recent Accounting Pronouncements***

A list of recent accounting pronouncements that are relevant to us is included in note 2 to our consolidated financial statements, which are included in this annual report.

## Results of Operations

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

	Years Ended September 30,					
	2018		2019		2020	
	\$	% of net revenues	\$	% of net revenues	\$	% of net revenues
	(In thousands, except for percentages)					
<b>Net Revenues</b>						
Online education services	117,026	70.2%	145,917	68.9%	159,338	76.0%
Books and reference materials	10,213	6.1%	27,372	12.9%	22,061	10.5%
Others	39,429	23.7%	38,533	18.2%	28,159	13.5%
<b>Total net revenues</b>	<b>166,668</b>	<b>100.0%</b>	<b>211,822</b>	<b>100.0%</b>	<b>209,558</b>	<b>100.0%</b>
<b>Cost of sales:</b>						
Cost of services and others	(78,936)	(47.4)%	(85,252)	(40.2)%	(81,976)	(39.1)%
Cost of tangible goods sold	(8,947)	(5.3)%	(19,489)	(9.2)%	(19,622)	(9.4)%
<b>Total cost of sales</b>	<b>(87,883)</b>	<b>(52.7)%</b>	<b>(104,741)</b>	<b>(49.4)%</b>	<b>(101,598)</b>	<b>(48.5)%</b>
<b>Gross profit</b>	<b>78,785</b>	<b>47.3%</b>	<b>107,081</b>	<b>50.6%</b>	<b>107,960</b>	<b>51.5%</b>
<b>Operating expenses:</b>						
Selling expenses	(44,717)	(26.8)%	(61,460)	(29.0)%	(69,848)	(33.3)%
General and administrative expenses	(21,253)	(12.8)%	(24,919)	(11.8)%	(25,478)	(12.2)%
Impairment of goodwill	—	— %	(1,517)	(0.7)%	—	— %
<b>Total operating expenses</b>	<b>(65,970)</b>	<b>(39.6)%</b>	<b>(87,896)</b>	<b>(41.5)%</b>	<b>(95,326)</b>	<b>(45.5)%</b>
Change in fair value in connection with business combination	84	0.1%	695	0.3%	—	— %
Other operating income	3,051	1.8%	2,968	1.4%	6,155	2.9%
<b>Operating income</b>	<b>15,950</b>	<b>9.6%</b>	<b>22,848</b>	<b>10.8%</b>	<b>18,789</b>	<b>9.0%</b>
Interest income	2,522	1.5%	2,207	1.0%	2,555	1.2%
Interest expense	(3,331)	(2.0)%	(2,819)	(1.3)%	(1,021)	(0.5)%
Exchange gain (loss)	2,476	1.5%	3,296	1.6%	(5,261)	(2.5)%
Impairment loss from long-term investments	(2,835)	(1.7)%	(6,920)	(3.3)%	(910)	(0.4)%
Gain from disposal of an investment	—	— %	318	0.2%	—	— %
Gain from deconsolidation of a subsidiary	—	— %	6,869	3.2%	—	— %
<b>Income before income taxes</b>	<b>14,782</b>	<b>8.9%</b>	<b>25,799</b>	<b>12.2%</b>	<b>14,152</b>	<b>6.8%</b>
Income tax expense	(2,307)	(1.4)%	(8,121)	(3.8)%	(5,460)	(2.6)%
Loss from equity method investment	(172)	(0.1)%	(1,484)	(0.7)%	(555)	(0.3)%
<b>Net income</b>	<b>12,303</b>	<b>7.4%</b>	<b>16,194</b>	<b>7.6%</b>	<b>8,137</b>	<b>3.9%</b>
<b>Less: Net income (loss) attributable to noncontrolling interest</b>	<b>677</b>	<b>0.4%</b>	<b>(5,060)</b>	<b>(2.4)%</b>	<b>(2,293)</b>	<b>(1.1)%</b>
<b>Net income attributable to China Distance Education Holdings Limited</b>	<b>11,626</b>	<b>7.0%</b>	<b>21,254</b>	<b>10.0%</b>	<b>10,430</b>	<b>5.0%</b>

## Fiscal Year Ended September 30, 2020 Compared to Fiscal Year Ended September 30, 2019

### Net Revenues

Our net revenues decreased slightly by 1.1% to \$209.6 million in the fiscal year ended September 30, 2020 from \$211.8 million in the fiscal year ended September 30, 2019, primarily as a result of the significant decrease in revenue from sale of books and reference materials and others, due to the impact of the COVID-19 pandemic across China. This decrease was partially offset by the increase in revenue from online education services.

*Online education services.* Net revenues from online education services increased by 9.2% to \$159.3 million in the fiscal year ended September 30, 2020 from \$145.9 million in the fiscal year ended September 30, 2019. The growth in net revenues from online education services was primarily due to revenue growth from the accounting vertical. Our longer duration premium and elite accounting classes, which were launched in April 2018, have relatively higher average selling prices, and were widely accepted by our customers in the past. As a result, although the overall cash receipts from online course registration declined significantly year-over-year in the second, third and fourth quarters of fiscal year 2020 due to the impact of the COVID-19 pandemic across China, the deferred revenue brought forward from these longer duration premium and elite classes that was recognized in fiscal year 2020 boosted revenue growth of the accounting vertical. Revenue from the legal vertical contributed by Beijing Ruida, which we acquired in July 2018, also contributed to the revenue growth, primarily due to our continued investment in our online education platform which enabled us to swiftly and effectively move our offline classes to online live streaming classes. For more details of the impact of COVID-19 on our business, see “— Specific Factors Affecting Our Results of Operations — Impact of COVID-19”. The total number of our online course enrollments increased by 13.4% from 3,709,000 in fiscal year 2019 to 4,208,000 in fiscal year 2020. The increase in online course enrollments was primarily due to significant discounts for certain online exam preparation courses to students during the onset of the COVID-19 pandemic. Enrollments from engineering & construction continuing education courses also contributed to the enrollment growth. This increase was partially offset by the decrease in enrollments from accounting continuing education courses.

The revenues generated from our accounting, engineering & construction, and legal courses increased by 11.7%, 7.5% and 47.2%, respectively, in fiscal year 2020, compared with fiscal year 2019, while the revenue generated from healthcare courses decreased by 4.5% in fiscal year 2020, compared with fiscal year 2019. Our accounting courses continued to account for the majority of our course enrollments and revenue. Our accounting courses generated revenues of \$112.7 million in fiscal year 2020, compared to \$100.9 million in fiscal year 2019. In addition, our healthcare, engineering & construction, and legal courses generated revenues of \$25.9 million, \$9.4 million and \$6.1 million, respectively, in fiscal year 2020, compared to \$27.1 million, \$8.7 million and \$4.1 million, respectively, in fiscal year 2019.

*Books and reference materials.* Net revenues from sales of books and reference materials decreased by 19.4% to \$22.1 million in the fiscal year ended September 30, 2020 from \$27.4 million in the fiscal year ended September 30, 2019, primarily as a result of the impact of the COVID-19 pandemic on overall book sales in general. In addition, the postponement of the subjective test of the Legal Professional Qualification Examination from October to November 2020 resulted in a delay in delivery of certain books and reference materials from September to October 2020 which also adversely impacted revenue recognition in fiscal year 2020.

*Others.* Our net revenues from other sources decreased by 26.9% to \$28.2 million in the fiscal year ended September 30, 2020 from \$38.5 million in the fiscal year ended September 30, 2019, primarily due to the significant decrease in revenue from offline training courses and sale of learning simulation software due to the impact of the COVID-19 pandemic, during which both schools and offline classes were suspended. In addition, the disposal of the “Tax School Program” in December 2018 adversely impacted revenue growth from others. The “Tax School Program” did not contribute revenue in fiscal year 2020, compared to 3-months’ revenue contribution in fiscal year 2019.

### **Gross Profit**

Our gross profit increased slightly by 0.8% to \$108.0 million in the fiscal year ended September 30, 2020 from \$107.1 million in the fiscal year ended September 30, 2019. Our gross margin was 51.5% in the fiscal year ended September 30, 2020, compared with 50.6% in the fiscal year ended September 30, 2019. The increase in gross profit and gross margin was primarily attributable to the exemption of payment of

certain statutory employee benefits, including pensions, work-related injury insurance and unemployment insurance to designated government agencies since February 1, 2020 until December 31, 2020, and effective cost control including rental and related expenses.

### **Operating Expenses**

Our operating expenses increased by 8.5% to \$95.3 million in the fiscal year ended September 30, 2020 from \$87.9 million in the fiscal year ended September 30, 2019 for the reasons explained below.

*Selling expenses.* Our selling expenses increased by 13.6% to \$69.8 million in the fiscal year ended September 30, 2020 from \$61.5 million in the fiscal year ended September 30, 2019. This increase was primarily due to increased marketing and promotional activities, and commission to agents. As a percentage of our net revenues, our selling expenses increased to 33.3% of our net revenues in the fiscal year ended September 30, 2020, from 29.0% of our net revenues in the fiscal year ended September 30, 2019.



*General and administrative expenses.* Our general and administrative expenses increased by 2.2% to \$25.5 million in the fiscal year ended September 30, 2020 from \$24.9 million in the fiscal year ended September 30, 2019. This increase was primarily due to professional fees associated with our currently pending going-private transaction, depreciation and amortization, and share-based compensation expenses, partially offset by the decrease in provision for doubtful debts. As a percentage of our net revenues, our general and administrative expenses increased to 12.2% of our net revenues in the fiscal year ended September 30, 2020, from 11.8% of our net revenues in the fiscal year ended September 30, 2019.

#### ***Other Operating Income***

In the fiscal year ended September 30, 2020, we had other operating income of \$6.2 million which was mainly from (i) net VAT exemption in accordance with the Announcement on Tax Policies to Support Prevention and Control of Pneumonia Caused by Novel Coronavirus Infection; (ii) VAT and IIT refund from our learning simulation software business and education services business; and (iii) R&D subsidy from our learning simulation software business and education services business. In the fiscal year ended September 30, 2019, we had other operating income of \$3.0 million which was mainly from (i) VAT refund from our learning simulation software business and education services business; (ii) R&D subsidy from our learning simulation software business; (iii) compensation from third parties for infringement of our courseware copyrights and breach of contracts; and (iv) subsidy from the share issuance of Zhengbao Yucai on China's New Third Board in March 2017.

#### ***Impairment loss from long-term investments***

Impairment loss from long-term investments for the fiscal year ended September 30, 2020 was \$0.9 million, compared with \$6.9 million for the fiscal year ended September 30, 2019, due to impairment of the value of our investee company, Beijing Xinrui Education Technology.

#### ***Income taxes***

Income tax expense for the fiscal year ended September 30, 2020 was \$5.5 million, compared with an income tax expense of \$8.1 million in the fiscal year ended September 30, 2019. The decrease in income tax expense was mainly due to the decrease in taxable income generated from the PRC in fiscal year 2020, compared with fiscal year 2019.

#### ***Loss from equity method investment***

Loss from equity method investment for the fiscal year ended September 30, 2020 was \$0.6 million, compared with \$1.5 million in the fiscal year ended September 30, 2019, mainly due to our share of loss from our investee company, Beijing Xinrui Education Technology. This loss was partially offset by our share of profit from Champion Yuanjian.

#### ***Net Income attributable to CDEL***

As a result of the above factors, our net income attributable to CDEL was \$10.4 million in the fiscal year ended September 30, 2020, compared to net income attributable to CDEL of \$21.3 million in the fiscal year ended September 30, 2019.

## **Fiscal Year Ended September 30, 2019 Compared to Fiscal Year Ended September 30, 2018**

### ***Net Revenues***

Our net revenues increased by 27.1% to \$211.8 million in the fiscal year ended September 30, 2019 from \$166.7 million in the fiscal year ended September 30, 2018, primarily as a result of growth in revenue from online education services, and books and reference materials.

*Online education services.* Net revenues from online education services increased by 24.7% to \$145.9 million in the fiscal year ended September 30, 2019 from \$117.0 million in the fiscal year ended September 30, 2018. The growth in net revenues from online education services was primarily due to strong revenue growth from the accounting vertical. Our longer duration premium and elite accounting classes, which were launched in April 2018, have relatively higher average selling prices, and were widely accepted by our customers. In addition, the adoption of ASC606 “Revenue from Contracts with Customers” resulted in an increase in revenue of \$16.3 million, compared with the then applicable ASC605. Revenue from the legal vertical contributed by Beijing Ruida, which we acquired in July 2018, also contributed to the revenue growth, due to 12-months’ revenue contribution from Beijing Ruida in fiscal year 2019, compared to 3-months’ revenue contribution from it in fiscal year 2018.

The total number of our online course enrollments increased by 19.8% from 3,094,000 in fiscal year 2018 to 3,709,000 in fiscal year 2019. During fiscal year 2019, however, we devoted more of our marketing and selling resources to the promotion of our relatively higher value, longer duration premium and elite accounting classes. As a result, overall online course enrollments from test-preparation courses of our accounting vertical decreased by 12.6% in fiscal year 2019, compared with fiscal year 2018.

The revenues generated from our accounting, engineering & construction, and legal courses increased by 38.1%, 13.2% and 180.1%, respectively, in fiscal year 2019, compared with fiscal year 2018, while the revenue generated from our healthcare courses remained flat in fiscal year 2019, compared with fiscal year 2018. Our accounting courses continued to account for the majority of our course enrollments and revenue. Our accounting courses generated revenues of \$100.9 million in fiscal year 2019, compared to \$73.1 million in fiscal year 2018. In addition, our healthcare, engineering & construction, and legal courses generated revenues of \$27.1 million, \$8.7 million and \$4.1 million, respectively, in fiscal year 2019, compared to \$27.2 million, \$7.7 million and \$1.5 million, respectively, in fiscal year 2018.

*Books and reference materials.* Net revenues from sales of books and reference materials increased by 168.0% to \$27.4 million in the fiscal year ended September 30, 2019 from \$10.2 million in the fiscal year ended September 30, 2018, primarily as a result of the book sale revenue from the legal vertical contributed by Beijing Ruida, which we acquired in July 2018. Beijing Ruida contributed 12-months’ revenue in fiscal year 2019, compared to 3-months’ revenue in fiscal year 2018.

*Others.* Our net revenues from other sources decreased by 2.3% to \$38.5 million in the fiscal year ended September 30, 2019 from \$39.4 million in the fiscal year ended September 30, 2018, primarily due to the disposal of the “Tax School Program” in December 2018, and a significant decrease in revenue from business start-up training courses. The decrease in revenue from business start-up training courses was primarily due to decreased revenue generated from training services in Shanghai, Zhejiang and Tianjin. This decrease was partially offset by revenue from offline Legal Professional Qualification Examination test preparation courses offered by Beijing Ruida, which we acquired in July 2018, higher revenue from the sale of learning simulation software, and accounting and consulting services. Beijing Ruida contributed 12-months’ revenue in fiscal year 2019, compared to 3-months’ revenue in fiscal year 2018.

### ***Gross Profit***

Our gross profit increased by 35.9% to \$107.1 million in the fiscal year ended September 30, 2019 from \$78.8 million in the fiscal year ended September 30, 2018. Our gross margin was 50.6% in the fiscal year ended September 30, 2019, compared with 47.3% in the fiscal year ended September 30, 2018. The increase in gross profit and gross margin was primarily attributable to the increase in revenue and effective cost control including salaries and related expenses, and rental and related expenses.

### ***Operating Expenses***

Our operating expenses increased by 33.2% to \$87.9 million in the fiscal year ended September 30, 2019 from \$66.0 million in the fiscal year ended September 30, 2018 for the reasons explained below.

*Selling expenses.* Our selling expenses increased by 37.4% to \$61.5 million in the fiscal year ended September 30, 2019 from \$44.7 million in the fiscal year ended September 30, 2018. This increase was primarily due to increased marketing and promotional activities, commission to agents, rental and related expenses, promotional materials, and salaries and related expenses. As a percentage of our net revenues, our selling expenses increased to 29.0% of our net revenues in the fiscal year ended September 30, 2019, from 26.8% of our net revenues in the fiscal year ended September 30, 2018.

*General and administrative expenses.* Our general and administrative expenses increased by 17.2% to \$24.9 million in the fiscal year ended September 30, 2019 from \$21.3 million in the fiscal year ended September 30, 2018. This increase was primarily due to the provision for doubtful debts associated with the sale of learning simulation software and the book printers of our legal vertical; and salaries and related expenses. As a percentage of our net revenues, our general and administrative expenses decreased to 11.8% of our net revenues in the fiscal year ended September 30, 2019, from 12.8% of our net revenues in the fiscal year ended September 30, 2018.

*Impairment of goodwill.* Impairment of goodwill for the fiscal year ended September 30, 2019 was \$1.5 million, due to impairment of the value of the business start-up training services segment.

### ***Other Operating Income***

In the fiscal year ended September 30, 2019, we had other operating income of \$3.0 million which was mainly from (i) VAT refund from our learning simulation software business and education services business; (ii) R&D subsidy from our learning simulation software business; (iii) compensation from third parties for infringement of our courseware copyrights and breach of contracts; and (iv) subsidy from the share issuance of Zhengbao Yucai on China's New Third Board in March 2017. In the fiscal year ended September 30, 2018, we had other operating income of \$3.1 million which was mainly from (i) VAT refund from our learning simulation software business; (ii) R&D subsidy from our learning simulation software business; and (iii) subsidy from the listing of Zhengbao Yucai on China's New Third Board in March 2017.

### ***Impairment loss from long-term investments***

Impairment loss from long-term investments for the fiscal year ended September 30, 2019 was \$6.9 million, due to impairment of the value of our investee companies, Hangzhou Wanting and Amdon Consulting Pte Ltd., or Amdon, of \$6.4 million and \$0.5 million, respectively.

### ***Gain from Deconsolidation of a Subsidiary***

Gain from deconsolidation of a subsidiary for the fiscal year ended September 30, 2019 was \$6.9 million, due to gain on the disposal of 60% equity interest and fair value change of the remaining 40% equity interest, in Champion Tax Advisory or "Tax School Program."

### ***Income taxes***

Income tax expense for the fiscal year ended September 30, 2019 was \$8.1 million, compared with income tax expense of \$2.3 million in the fiscal year ended September 30, 2018. The increase in income tax expense was mainly due to the increase in taxable income generated from the PRC in fiscal year 2019, compared with fiscal year 2018.

### ***Loss from equity method investment***

Loss from equity method investment for the fiscal year ended September 30, 2019 was \$1.5 million, compared with \$0.2 million in the fiscal year ended September 30, 2018, mainly due to our share of loss from our investee companies, Hangzhou Wanting, Beijing Xinrui Education Technology, and Champion Yuanjian.

### ***Net Income attributable to CDEL***

As a result of the above factors, our net income attributable to CDEL was \$21.3 million in the fiscal year ended September 30, 2019, compared to net income attributable to CDEL of \$11.6 million in the fiscal year ended September 30, 2018.

### **Discussion of Segment Operations**

For the fiscal year ended September 30, 2020, we operated in three operating segments, namely professional education services, business start-up training services and the sale of learning simulation software.

Net revenues from our professional education services accounted for 90.3%, 92.6% and 94.4%, respectively, of our total net revenues in the fiscal years ended September 30, 2018, 2019 and 2020. Net revenues from our business start-up training services accounted for 2.7%, 1.3% and 1.1%, respectively, of our total net revenues in the fiscal years ended September 30, 2018, 2019 and 2020. Net revenues from our sale of learning simulation software accounted for 7.0%, 6.1% and 4.5% respectively, of our total net revenues in the fiscal years ended September 30, 2018, 2019 and 2020. See “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Critical Accounting Policies — Revenue recognition.”

Cost of sales for our professional education services primarily consists of salaries and related expenses for our tutors, course and content development, website maintenance and information technology technicians and other employees, fees paid to our course lecturers, depreciation and amortization expenses, server management and bandwidth leasing fees paid to third-party providers, rental and related expenses, cost of books and reference materials and other miscellaneous expenses.

Cost of sales for our business start-up training services primarily consists of salaries and related expenses for our tutors, website maintenance and information technology technicians, fees paid to our course lecturers, cost of purchases and other miscellaneous expenses.

Cost of sales for our sale of learning simulation software primarily consists of salaries and related expenses for our website maintenance and information technology technicians, depreciation and amortization expenses, rental and related expenses, cost of purchases and other miscellaneous expenses.

Selling expenses for our professional education services primarily consist of salaries and related expenses of our customer service staff and sales and marketing staff, commissions paid to our agents, advertising and promotion expenses, rental and related expenses, freight and delivery expenses related to our books and reference materials and promotional materials, and other selling expenses.

Selling expenses for our business start-up training services primarily consist of salaries and related expenses of our sales and marketing staff, commissions paid to our agents, and other selling expenses.

Selling expenses for our sale of learning simulation software primarily consist of salaries and related expenses of our sales and marketing staff, advertising and promotion expenses, travelling expenses, commissions paid to our agents and other selling expenses.

General and administrative expenses for our professional education services primarily consist of administrative staff compensation and benefits, professional fees, depreciation and amortization expenses, rental and related expenses, allowance for doubtful accounts, share-based compensation expenses and other miscellaneous expenses.

General and administrative expenses for our business start-up training services primarily consist of administrative staff compensation and benefits, professional fees, allowance for doubtful accounts and other miscellaneous expenses.

General and administrative expenses for our sale of learning simulation software primarily consist of administrative staff compensation and benefits, rental and related expenses, allowance for doubtful accounts and other miscellaneous expenses.

The following table lists our net revenues, operating costs and expenses, and operating income by reportable segment for the periods indicated.

<i>(in thousands of \$)</i>	For the Year Ended September 30,		
	2018	2019	2020
<b>Net revenues of reportable segments:</b>			
Professional education services	150,484	196,047	197,835
Business start-up training services	4,608	2,796	2,207
Sale of learning simulation software	11,576	12,979	9,516
Total net revenues of reportable segments	166,668	211,822	209,558
Total net revenues of our company	166,668	211,822	209,558
<b>Operating costs and expenses of reportable segments:</b>			
<b>Cost of sales:</b>			
Professional education services	(79,168)	(96,044)	(94,162)
Business start-up training services	(2,644)	(1,777)	(1,033)
Sale of learning simulation software	(6,071)	(6,920)	(6,403)
<b>Selling expenses:</b>			
Professional education services	(39,698)	(56,334)	(65,474)
Business start-up training services	(1,127)	(1,226)	(915)
Sale of learning simulation software	(3,892)	(3,900)	(3,459)
<b>General and administrative expenses:</b>			
Professional education services	(14,548)	(16,745)	(16,773)
Business start-up training services	(896)	(1,930)	(584)
Sale of learning simulation software	(1,316)	(1,389)	(1,171)
<b>Impairment of goodwill</b>			
Business start-up training services	—	(1,517)	—
Unallocated corporate expenses	(4,493)	(4,855)	(6,950)
<b>Total operating costs and expense:</b>			
Professional education services	(133,414)	(169,123)	(176,409)
Business start-up training services	(4,667)	(6,450)	(2,532)
Sale of learning simulation software	(11,279)	(12,209)	(11,033)
Unallocated corporate expenses	(4,493)	(4,855)	(6,950)
<b>Other operating income:</b>			
Professional education services	643	1,053	4,976
Business start-up training services	76	102	5
Sale of learning simulation software	2,332	1,813	1,174
<b>Operating income (loss):</b>			
Professional education services	17,797	28,672	26,402
Business start-up training services	17	(3,552)	(320)
Sale of learning simulation software	2,629	2,583	(343)
Unallocated corporate expenses	(4,493)	(4,855)	(6,950)

## **Fiscal Year Ended September 30, 2020 Compared to Fiscal Year Ended September 30, 2019**

### ***Net Revenues of Reportable Segments***

*Professional education services.* Net revenue from professional education services increased by 0.9% to \$197.8 million in the fiscal year ended September 30, 2020 from \$196.0 million in the fiscal year ended September 30, 2019. This increase was primarily due to the factors discussed in “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Fiscal Year Ended September 30, 2020 Compared to Fiscal Year Ended September 30, 2019- Net Revenues- Online education services, Books and reference materials, and Others.”

*Business start-up training services.* Net revenue from business start-up training services decreased by 21.1% to \$2.2 million in the fiscal year ended September 30, 2020 from \$2.8 million in the fiscal year ended September 30, 2019. This decrease was primarily due to the impact of the COVID-19 pandemic, during which both schools and offline classes were suspended.

*Sale of learning simulation software.* Net revenue from the sale of learning simulation software decreased by 26.7% to \$9.5 million in the fiscal year ended September 30, 2020 from \$13.0 million in the fiscal year ended September 30, 2019. This decrease was primarily due to the impact of the COVID-19 pandemic, during which both schools and offline classes were suspended.

### ***Operating Costs and Expenses of Reportable Segments***

#### ***Cost of sales***

*Professional education services.* Cost of sales for professional education services decreased by 2.0% to \$94.2 million in the fiscal year ended September 30, 2020 from \$96.0 million in the fiscal year ended September 30, 2019. This decrease was primarily due to (i) the exemption of payment of certain statutory employee benefits, including pensions, work-related injury insurance and unemployment insurance to designated government agencies since February 1, 2020 until December 31, 2020, (ii) the decrease in fees paid to our course lecturers due to the impact of the COVID-19 pandemic, during which offline classes were suspended, and (iii) effective cost control including rental and related expenses.

*Business start-up training services.* Cost of sales for business start-up training services decreased by 41.9% to \$1.0 million in the fiscal year ended September 30, 2020 from \$1.8 million in the fiscal year ended September 30, 2019. This decrease was primarily due to (i) the decrease in fees paid to our course lecturers due to the impact of the COVID-19 pandemic, during which both schools and offline classes were suspended, and (ii) decreased salaries and related expenses.

*Sale of learning simulation software.* Cost of sales for the sale of learning simulation software decreased by 7.5% to \$6.4 million in the fiscal year ended September 30, 2020 from \$6.9 million in the fiscal year ended September 30, 2019. This decrease was primarily due to the decrease in cost of purchases of hardware and software.

#### ***Selling expenses***

*Professional education services.* Selling expenses for professional education services increased by 16.2% to \$65.5 million in the fiscal year ended September 30, 2020 from \$56.3 million in the fiscal year ended September 30, 2019. This increase was primarily due to increased marketing and promotional activities, and commission to our agents.

*Business start-up training services.* Selling expenses for business start-up training services decreased by 25.4% to \$0.9 million in the fiscal year ended September 30, 2020 from \$1.2 million in the fiscal year ended September 30, 2019. This decrease was primarily due to decreased salaries and related expenses, and commission to our agents.

*Sale of learning simulation software.* Selling expenses for the sale of learning simulation software decreased by 11.3% to \$3.5 million in the fiscal year ended September 30, 2020 from \$3.9 million in the fiscal year ended September 30, 2019. This decrease was primarily due to decreased marketing and promotional activities, and travelling expenses, due to the impact of the COVID-19 pandemic, during which both schools and offline classes were suspended.

### **General and administrative expenses**

*Professional education services.* General and administrative expenses for professional education services increased by 0.2% to \$16.8 million in the fiscal year ended September 30, 2020 from \$16.7 million in the fiscal year ended September 30, 2019. This increase was primarily due to increased depreciation and amortization, partially offset by decrease in provision for doubtful debts.

*Business start-up training services.* General and administrative expenses for business start-up training services decreased by 69.7% to \$0.6 million in the fiscal year ended September 30, 2020 from \$1.9 million in the fiscal year ended September 30, 2019. This decrease was primarily due to decreased salaries and related expenses and the significant decrease in provision for doubtful debts. In fiscal year 2019, we recorded a significant provision for doubtful debts associated with our investee company, Hangzhou Wanting.

*Sale of learning simulation software.* General and administrative expenses for the sale of learning simulation software decreased by 15.7% to \$1.2 million in the fiscal year ended September 30, 2020 from \$1.4 million in the fiscal year ended September 30, 2019. This decrease was primarily due to decreased salaries and related expenses and rental and related expenses.

### **Fiscal Year Ended September 30, 2019 Compared to Fiscal Year Ended September 30, 2018**

#### **Net Revenues of Reportable Segments**

*Professional education services.* Net revenue from professional education services increased by 30.3% to \$196.0 million in the fiscal year ended September 30, 2019 from \$150.5 million in the fiscal year ended September 30, 2018. This strong growth was primarily due to the factors discussed in “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Fiscal Year Ended September 30, 2019 Compared to Fiscal Year Ended September 30, 2018- Net Revenues- Online education services, Books and reference materials, and Others.”

*Business start-up training services.* Net revenue from business start-up training services decreased by 39.3% to \$2.8 million in the fiscal year ended September 30, 2019 from \$4.6 million in the fiscal year ended September 30, 2018. This decrease was primarily due to decreased revenue generated from training services in Shanghai, Zhejiang and Tianjin, and decreased revenue from the sale of software.

*Sale of learning simulation software.* Net revenue from the sale of learning simulation software increased by 12.1% to \$13.0 million in the fiscal year ended September 30, 2019 from \$11.6 million in the fiscal year ended September 30, 2018.

#### **Operating Costs and Expenses of Reportable Segments**

##### **Cost of sales**

*Professional education services.* Cost of sales for professional education services increased by 21.3% to \$96.0 million in the fiscal year ended September 30, 2019 from \$79.2 million in the fiscal year ended September 30, 2018. This increase was primarily due to increased salaries and related expenses, rental and related expenses, cost of books and reference materials, fees paid to our course lecturers, amortization of intangibles, and other miscellaneous expenses associated with Beijing Ruida, which we acquired in July 2018. Beijing Ruida incurred 12-months of expenses in fiscal year 2019, compared to 3-months of expenses in fiscal year 2018. This increase was partially offset by decreased salaries and related expenses, rental and related expenses, fees paid to our course lecturers, and other miscellaneous expenses associated with the “Tax School Program,” which we disposed in December 2018.

*Business start-up training services.* Cost of sales for business start-up training services decreased by 32.8% to \$1.8 million in the fiscal year ended September 30, 2019 from \$2.6 million in the fiscal year ended September 30, 2018. This decrease was primarily due to decreased salaries and related expenses, cost of purchases, and other miscellaneous expenses.

*Sale of learning simulation software.* Cost of sales for the sale of learning simulation software increased by 14.0% to \$6.9 million in the fiscal year ended September 30, 2019 from \$6.1 million in the fiscal year ended September 30, 2018. This increase was primarily due to increased salaries and related expenses, and cost of purchases.

### ***Selling expenses***

*Professional education services.* Selling expenses for professional education services increased by 41.9% to \$56.3 million in the fiscal year ended September 30, 2019 from \$39.7 million in the fiscal year ended September 30, 2018. This increase was primarily due to (i) increased marketing and promotional activities, commission to our agents, and rental and related expenses; (ii) increased salaries and related expenses, freight and delivery expenses related to our books and reference materials and promotional materials, rental and related expenses, and other miscellaneous expenses associated with Beijing Ruida, which we acquired in July 2018. Beijing Ruida incurred 12-months of expenses in fiscal year 2019, compared to 3-months of expenses in fiscal year 2018. This increase was partially offset by decreased marketing and promotional activities, commission to agents and other miscellaneous expenses associated with the “Tax School Program,” which we disposed in December 2018.

*Business start-up training services.* Selling expenses for business start-up training services increased by 8.8% to \$1.2 million in the fiscal year ended September 30, 2019 from \$1.1 million in the fiscal year ended September 30, 2018. This increase was primarily due to increased commission to agents. This increase was partially offset by decreased salaries and related expenses.

*Sale of learning simulation software.* Selling expenses for the sale of learning simulation software increased by 0.2% to \$3.9 million in the fiscal year ended September 30, 2019 from \$3.9 million in the fiscal year ended September 30, 2018. This increase was primarily due to increased commission to agents. This increase was partially offset by decreased salaries and related expenses.

### ***General and administrative expenses***

*Professional education services.* General and administrative expenses for professional education services increased by 15.1% to \$16.7 million in the fiscal year ended September 30, 2019 from \$14.5 million in the fiscal year ended September 30, 2018. This increase was primarily due to (i) increased salaries and related expenses; and (ii) increased salaries and related expenses, rental and related expenses, provision for doubtful debts associated with book printers, and other miscellaneous expenses associated with Beijing Ruida, which we acquired in July 2018. Beijing Ruida incurred 12-months of expenses in fiscal year 2019, compared to 3-months of expenses in fiscal year 2018.

*Business start-up training services.* General and administrative expenses for business start-up training services increased by 115.4% to \$1.9 million in the fiscal year ended September 30, 2019 from \$0.9 million in the fiscal year ended September 30, 2018. This increase was primarily due to the provision for doubtful debts associated with our investee company, Hangzhou Wanting.

*Sale of learning simulation software.* General and administrative expenses for the sale of learning simulation software increased by 5.5% to \$1.4 million in the fiscal year ended September 30, 2019 from \$1.3 million in the fiscal year ended September 30, 2018. This increase was primarily due to the provision for doubtful debts relating to the sale of learning simulation software. This increase was partially offset by decreased salaries and related expenses.



## B. Liquidity and Capital Resources

Historically, we have financed our operations primarily through cash generated internally. As of September 30, 2018, 2019 and 2020, we had approximately \$99.6 million, \$128.5 million and \$134.9 million in cash and cash equivalents, term deposits, restricted cash, and short-term investments, respectively. As of September 30, 2020, our cash and cash equivalents of \$80.1 million primarily consisted of cash on hand and bank deposits, and are deposited with banks in China and Hong Kong. We intend to finance our future working capital requirements and capital expenditures through our normal course of business from net cash generated from operating activities, and existing cash and cash equivalents. We believe that our working capital is sufficient for our present requirements. We do, however, expect to spend money on the further development of our “Chinaacc” and “med66.com” brands and other brands in the disciplines for which we offer courses, and strategic acquisition and investment opportunities. See “Item 3.D. Key Information — Risk Factors — Risks Relating to Our Business — We may need additional capital but may not be able to obtain it on acceptable terms or at all.”

Our PRC subsidiaries and consolidated controlled companies and affiliated entities, in the aggregate, held RMB904.3 million (\$133.2 million) in cash and cash equivalents, term deposits, restricted cash and short-term investments, as of September 30, 2020. For information regarding restrictions and potential tax liabilities on profit distribution from these entities, please see “Risk Factors — Risks Relating to Conducting Business in China — PRC regulations relating to investments in offshore companies by PRC residents may subject our PRC-resident beneficial owners or our PRC subsidiaries to liability or penalties, limit our ability to inject capital into our PRC subsidiaries or limit our PRC subsidiaries’ ability to increase their registered capital or distribute profits”, and “— Restrictions on currency exchange may limit the ability of our PRC subsidiaries, controlled companies and affiliated entities to finance their activities.”

Our PRC subsidiaries and our consolidated controlled companies and affiliated entities generally earn their revenues in Renminbi which is not a freely convertible currency. Although our PRC subsidiaries generally may convert Renminbi into foreign currency to pay dividends, our PRC subsidiaries must follow specific procedural requirements which could result in delay or which could change in the future. In addition, each of our PRC subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association and the accounting standards and regulations in the PRC. Pursuant to applicable PRC laws and regulations, 10% of the after-tax profits of each of our PRC subsidiaries are required to be set aside in a statutory surplus reserve fund each year until the reserve balance reaches 50% of such PRC subsidiary’s registered capital. Allocations to these statutory reserves may only be used for specific purposes and are not distributable to us in the form of loans, advances or cash dividends. As a result of these PRC restrictions, our PRC subsidiaries and consolidated controlled companies and affiliated entities are restricted in their ability to transfer a portion of their net assets to CDEL Cayman (either in the form of dividends, loans or advances), which restricted portion as calculated under US GAAP amounted to approximately RMB220.7 million (\$30.9 million) and RMB220.7 million (\$32.5 million), respectively, as of September 30, 2019 and September 30, 2020.

We are a holding company incorporated under the laws of the Cayman Islands. We derive a substantial majority of our income from the business operation of our PRC subsidiaries and consolidated controlled companies and affiliated entities in China. Since January 1, 2008, dividends derived by foreign enterprises from business operations in China are subject to a withholding tax rate of 10% unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a preferential withholding arrangement. For our PRC subsidiaries’ earnings generated after 2008 that were available for distribution, provisions of \$0.2 million, \$0.5 million and \$0.3 million have been made in the fiscal years ended September 30, 2018, 2019 and 2020, respectively, for the PRC dividend withholding taxes with respect to the distribution of these earnings to CDEL Hong Kong. The economic benefits of our PRC consolidated affiliated entity, Beijing Champion, are mainly transferred to our PRC subsidiaries Champion Education Technology and Champion Technology through payment of service fees and licensing fees under the Software License Agreement, Courseware Production Entrustment Agreement, Technical Support and Consultancy Services Agreement and Courseware License Agreement entered into between Beijing Champion, Champion Education Technology and Champion Technology. Such service fees and licensing fees are subject to VAT and related surcharges. Upon receipt of such fees, they will become a portion of revenues for Champion Education Technology and Champion Technology and can be remitted to the Cayman Islands holding company in the form of dividend distribution. Our other PRC consolidated affiliated entity, Champion Healthcare Education has not started conducting any business to date. As a result, no economic benefits of Champion Healthcare Education are available for transfer to our PRC subsidiary, Zhongxi Healthcare Education.

The following table summarizes our cash flows in the fiscal years ended September 30, 2018, 2019 and 2020:

	<b>For the Year Ended September 30,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
	<b>(In thousands)</b>		
Net cash generated from operating activities	50,094	81,795	40,961
Net cash (used in) investing activities	(55,497)	(25,058)	(16,149)
Net cash (used in) financing activities	(3,302)	(24,219)	(40,254)
Exchange rate effect on cash and cash equivalents and restricted cash	(4,114)	(8,745)	10,224
Net (decrease) increase in cash and cash equivalents and restricted cash	(12,819)	23,773	(5,218)
Cash and cash equivalents and restricted cash at beginning of the year	95,381	82,562	106,335
Cash and cash equivalents and restricted cash at end of the year	82,562	106,335	101,117

CDEL Cayman, our ultimate holding company, may rely on dividends and other distributions on equity paid by our PRC subsidiaries for its cash requirements, but such dividends and other distributions are subject to restrictions under PRC law. See Note 18 to our consolidated financial statements included in this annual report.

### Operating activities

Net cash of \$41.0 million generated from operating activities in the fiscal year ended September 30, 2020 was primarily attributable to (i) net income before non-cash items including share-based compensation expenses, depreciation and amortization, provision of inventories, impairment loss from long-term investments, loss from equity method investments, (ii) decrease in other non-current assets of \$3.0 million, (iii) decrease in right of use assets of \$3.4 million, (iv) increase in accrued expenses and other liabilities of \$15.4 million, (v) increase in income tax payable of \$6.5 million, and (vi) increase in deferred revenue of \$5.2 million. The increase in operating cash flow was partially offset by (i) increase in prepayments and other current assets of \$6.9 million, (ii) decrease in lease liability of \$7.4 million, and (iii) decrease in deferred tax liabilities of \$7.1 million.

Net cash of \$81.8 million generated from operating activities in the fiscal year ended September 30, 2019 was primarily attributable to (i) net income before non-cash items including share-based compensation expenses, depreciation and amortization, provision of inventories, impairment of goodwill, impairment loss from long-term investments, loss from equity method investments, change in fair value of our investment in Beijing Ruida, and gain from deconsolidation of a subsidiary, (ii) decrease in deferred tax assets of \$1.2 million, (iii) increase in deferred revenue of \$68.4 million, and (iv) increase in income tax payable of \$1.1 million. The increase in operating cash flow was partially offset by (i) increase in prepayments and other current assets of \$7.6 million, (ii) increase in inventories of \$2.7 million, (iii) increase in other non-current assets of \$1.3 million, and (iv) decrease in refundable fees of \$10.8 million.

Net cash of \$50.1 million generated from operating activities in the fiscal year ended September 30, 2018 was primarily attributable to (i) net income before non-cash items including share-based compensation expenses, depreciation and amortization, impairment loss from long-term investments, and change in fair value of our investment in Beijing Ruida, (ii) increase in deferred revenue of \$23.2 million, and (iii) increase in refundable fees of \$13.4 million. The increase in operating cash flow was partially offset by (i) increase in accounts receivable of \$1.9 million, (ii) increase in inventories of \$1.8 million, (iii) increase in prepayments and other current assets of \$2.7 million, (iv) increase in deferred tax assets of \$3.1 million, and (v) increase in other non-current assets of \$1.3 million.

## **Investing activities**

Net cash of \$16.1 million used in investing activities in the fiscal year ended September 30, 2020 was primarily attributable to (i) net increase in term deposits of \$13.0 million, (ii) capital expenditures of \$5.2 million, and (iii) strategic investment of \$1.4 million in Shanghai Xiniao Education. The net cash used in investing activities was partially offset by (i) net decrease in short-term investments of \$2.9 million, and (ii) the proceeds from disposal of an investment in Amdon of \$0.8 million.

Net cash of \$25.1 million used in investing activities in the fiscal year ended September 30, 2019 was primarily attributable to (i) deconsolidation of a subsidiary, Champion Tax Advisory, net of cash of \$2.8 million, (ii) net increase in short-term investments of \$5.9 million, (iii) capital expenditures of \$13.0 million, including our new office space in Beijing and new office building in Xiamen, and (iv) the payment of contingent consideration for the acquisition of 11% equity interest and purchase consideration for further acquisition of 9% equity interest in Beijing Ruida for a total of \$6.6 million. The net cash used in investing activities was partially offset by the proceeds from disposal of an investment into Beijing Yousian, of \$3.6 million.

Net cash of \$55.5 million used in investing activities in the fiscal year ended September 30, 2018 was primarily attributable to (i) acquisition of Jiangsu Asset and Beijing Ruida for \$15.5 million (net of cash acquired), (ii) strategic investments of \$21.8 million in total in Beijing Taixing #1 Investment Management Centre (LP), Niuke Technology, Chongqing Moses Robots, Hangzhou Wanting, Beijing teacheredu, Beijing Yousian, and other complementary businesses, and (iii) capital expenditures of \$24.6 million.

## **Financing activities**

Net cash of \$40.3 million used in financing activities in the fiscal year ended September 30, 2020 was primarily attributable to (i) repayment of bank borrowings of \$38.6 million, (ii) payment of a special dividend of \$19.6 million, and (iii) dividend distributions by a controlled company and an affiliated entity to their noncontrolling interests shareholders of \$2.5 million in total. This decrease in cash flow was partially offset by offshore bank borrowings of \$20.0 million.

Net cash of \$24.2 million used in financing activities in the fiscal year ended September 30, 2019 was primarily attributable to (i) repayment of offshore loans of \$19.0 million, and (ii) repayment of onshore loan of \$5.1 million.

Net cash of \$3.3 million used in financing activities in the fiscal year ended September 30, 2018 was primarily attributable to (i) repayment of onshore bank borrowing of \$7.2 million, (ii) repayment of advance from a related party of \$1.7 million, (iii) repayment of offshore bank borrowing of \$15.0 million, and (iv) payment of a special dividend of \$14.9 million. This decrease in cash flow was partially offset by offshore bank borrowings of \$35.3 million.

## **Capital Expenditures**

We incurred capital expenditures of \$24.6 million, \$13.0 million and \$5.2 million in the fiscal years ended September 30, 2018, 2019 and 2020, respectively. The amount of capital expenditures in the fiscal years ended September 30, 2018, 2019 and 2020 related primarily to our expenditures on property, plant and equipment, and software. From time to time, we may evaluate and make investments, acquisitions or divestments.

We believe that our current cash and cash equivalents, and anticipated cash flows from operations will be sufficient to meet our anticipated working capital requirements and capital expenditures in normal course of business for 12 months following the date of this annual report. Our online course platform can support significant growth in course enrollments and is easily adaptable for the addition of new courses. We do, however, expect to spend money on the further development of our “Chinaacc” and “med66.com” brands and other brands in the disciplines for which we offer courses, and strategic acquisition and investment opportunities.

In addition, we may require additional sources of liquidity in the event of changes in business conditions or other future developments. Factors affecting our sources of liquidity include, for example, our sales performance, ability to control costs and expenses, choice of financing arrangements, restructurings, the currently pending going-private transaction, and mergers and acquisitions. Any changes in the significant factors affecting our revenues from education services may cause material fluctuations in our cash generated from operations. See “Operating Results — Overview — Specific Factors Affecting Our Results of Operations” for a description of these significant factors. Changes in working capital, including any significant shortening or lengthening of our accounts receivable cycle or customer prepayment cycles, may also cause fluctuations in our cash generated from operations. If our sources of liquidity are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities to meet our cash needs. The sale of convertible debt securities or additional equity securities could result in dilution to our shareholders. In addition, convertible debt securities would incur significant interest expense. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that restrict our operations. We cannot assure you that future financing will be available in amounts or on terms acceptable to us, if at all.

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

### **Inflation**

According to the National Bureau of Statistics of China, the change in China’s Consumer Price Index was 2.1% and 2.9% in the years 2018 and 2019, respectively. Inflation has had some impact on our operations in recent years, particularly in the form of higher salaries for our lecturers, and employees, and higher rental expenses. For more details, see “Item 5.A. Operating and Financial Review and Prospects — Operating Results — Description of Key Line Items — Cost of Sales, Selling Expenses, and General and Administrative Expenses.” We can provide no assurance that we will not continue to be affected in the future by higher rates of inflation in China, or that we will be able to adjust our fees to mitigate the impact of inflation on our results of operations.

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

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

### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended September 30, 2020 that are reasonably likely to have a material adverse effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

## E. Off-Balance Sheet Arrangements

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

## F. Tabular Disclosure of Contractual Obligations

### Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of September 30, 2020:

	Payment Due by Period					Others
	Total	Within 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Operating lease obligations <sup>(1)</sup>	32,379	5,411	9,565	8,597	8,806	—
Others <sup>(2)</sup>	160	—	—	—	—	160
Short term borrowing <sup>(3)</sup>	4,045	4,045	—	—	—	—
Long term borrowing <sup>(3)</sup>	16,319	248	16,071	—	—	—
Total	52,903	9,704	25,636	8,597	8,806	160

- (1) Our operating lease obligations primarily relate to our leased servers and bandwidth as well as our leased offices, training center and staff quarters in China and Hong Kong. The office, training center and staff quarter leases expire at different times over the period from the date of this annual report through 2030 and will become subject to renewal. We will evaluate the need to renew each office, training center and staff quarter lease on a case-by-case basis prior to its expiration.
- (2) Liabilities for unrecognized tax benefits. The balance disclosed under “Others” represents liabilities for which reasonable estimates about the timing of the payment cannot be made.
- (3) CDEL Hong Kong drew down a two-year term loan of \$20.0 million from a bank in April 2020. The loan is effective from April 2020 to April 2022. The balances include the principal and unpaid interest payment of the loan as of September 30, 2020. See “-Indebtedness” for the repayment schedules of the above loan.

## Indebtedness

On March 23, 2020, CDEL Hong Kong entered into a loan agreement with a bank for a \$20.0 million two-year term loan facility. As of the date of this annual report, \$20.0 million of the facility was drawn down in April 2020 with a 2.58% annual interest rate, subject to adjustment each quarter, for a term of 24 months. The facility was secured by a term deposit of RMB143.0 million provided by Zhongxi Healthcare Education. The loan of \$20.0 million was repaid early in January 2021.

## G. Safe Harbor

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

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

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

<b>Name</b>	<b>Age</b>	<b>Position</b>
Zhengdong Zhu	53	Chairman of the Board of Directors, Chief Executive Officer
Baohong Yin	54	Deputy Chairman of the Board of Directors
Feijia Ji	48	Senior Executive Vice President, Director
Xiaoshu Chen	58	Independent Director
Annabelle Yu Long	48	Independent Director
Liankui Hu	71	Independent Director
Carol Yu	59	Independent Director
Mark Marostica	60	Co-Chief Financial Officer
Philip Chan	50	Co-Chief Financial Officer

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

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

*Feijia Ji* is senior executive vice president of our company. From 1996 to 2000, Mr. Ji worked as a marketing manager at the Beijing Huake Hi-Tech Co., Ltd. From 1995 to 1996, Mr. Ji worked as a business manager at Huayou Beijing Service Corporation. Mr. Ji received his EMBA degree from Tsinghua University in 2016.

*Xiaoshu Chen* is an independent director of our company, and currently a professor and an assistant director at the Department of Radio Engineering of SISE Southeast University in China. From 1985 to 2001, Professor Chen worked as an assistant lecturer, lecturer and assistant professor at the same department. Professor Chen has almost 21 years of experience in communication systems and network research. He graduated in 1985 from the Department of Radio Engineering of the Nanjing Institute of Technology in China with a bachelor's degree in engineering. He obtained his master's degree in engineering in 1990 from the same university.

*Annabelle Yu Long* is an independent director of our company. Ms. Long currently serves as the Founding and Managing Partner of BAI Capital. She also serves as a member of Bertelsmann Group Management Committee. Formerly, Ms. Long was the chief executive officer of Bertelsmann China Corporate Center and the managing partner of Bertelsmann Asia Investments. Prior to that, she was a Principal at Bertelsmann Digital Media Investments. She joined the international media, services, and education company via the Bertelsmann Entrepreneurs Program in 2005. From 1996 to 2003, Ms. Long was a Producer and Lead Anchor for the Sichuan Broadcasting Group. From 1994 to 1996 she was a Producer and host for Chengdu People's Radio Broadcasting. Ms. Long is a member of its Global Agenda Council on the Future of Media, Entertainment & Information and is also a member of the Stanford Graduate School of Business Advisory Council. Ms. Long serves on the board of directors of Tapestry Inc. (NYSE: TPR, its portfolio includes Coach, Stuart Weitzman and Kate Spade) and LexinFintech Holdings Ltd. (NASDAQ: LX). Ms. Long received a bachelor's degree in electrical engineering from University of Electronic Science and Technology in China and an MBA from Stanford Graduate School of Business.

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

*Carol Yu* is an independent director of our company. Ms. Yu has served as independent director of the Company since 2008. Ms. Yu has been the chief executive officer of Virtues Holding Limited since February 2017. Between March 2004 and July 2016, Ms. Yu was the president and chief financial officer of Sohu.com Inc., whose shares are listed on the NASDAQ. Ms. Yu received her professional diploma in accountancy from the Hong Kong Polytechnic (now the Hong Kong Polytechnic University) in June 1985.

*Mark Marostica* is our Co-Chief Financial Officer. Mr. Marostica joined our company as vice president of corporate development and strategy in January 2015. He has over 16 years of experience in the capital markets, with a focus on Asian education and Internet companies. Before joining our company, he was a managing director and senior research analyst at Piper Jaffray & Company from 1998 to 2014, and served as managing director and head of Asia equity research from 2009 to 2012. Prior to that he was a consulting manager at Deloitte & Touche from 1994 to 1998. Earlier in his career Mr. Marostica served as an information technology manager at Fortis, and as an analyst at Electronic Data Systems. Mr. Marostica holds a master degree in Business Administration from University of St. Thomas in Saint Paul, and an Honours Bachelor of Commerce degree from Lakehead University in Canada.

*Philip Chan* is our Co-Chief Financial Officer. Mr. Chan has been our company's financial controller since 2005 and has had overall responsibility for financial and accounting matters. He has over 20 years of accounting and auditing experience and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, and fellow member of the Association of International Accountants. He received a Master degree in Applied Finance from the University of Western Sydney in 2002.]

## **B. Compensation**

### **Compensation of Directors and Executive Officers**

For the fiscal year ended September 30, 2020, we and our subsidiaries paid aggregate cash compensation of approximately \$1.6 million to our directors and executive officers as a group. We do not pay or set aside any amounts pursuant to a bonus plan or for pension, retirement or other benefits for our officers and directors.

### **Share Options, Nonvested Shares and Share Incentive Plans**

We adopted our Share Incentive Plan, or the Prior Plan, on April 18, 2008. We adopted on July 2, 2008, and amended and restated on February 16, 2009, May 21, 2012, and November 28, 2017, respectively, our 2008 Performance Incentive Plan, or the New Plan. Our incentive plans are intended to promote our success and to increase shareholder value by providing an additional means to attract, motivate, retain and reward selected directors, officers, employees, lecturers and other eligible persons. An aggregate of 11,652,556 ordinary shares are reserved for issuance under the Prior Plan. Subject to any amendment of the New Plan, the maximum number of ordinary shares that may be issued pursuant to the New Plan is 34,263,934 ordinary shares as of September 30, 2020, plus an automatic annual increase on October 1 of each calendar year commencing from October 1, 2012, by an amount equal to the lesser of (i) 2% of the total number of ordinary shares issued and outstanding on September 30 of the same calendar year, (ii) 2,850,000 ordinary shares, or (iii) such number of ordinary shares as may be determined by our board of directors.

Under the Prior Plan, which expired in April 2018, we had granted options for the purchase of a total of 11,045,500 ordinary shares to selected officers, employees, and lecturers. Pursuant to the New Plan, we had granted options for the purchase of a total of 5,962,500 ordinary shares and issued 3,957,971 nonvested shares to directors, officers and selected employees as of September 30, 2020. As of December 31, 2020, there were outstanding options to purchase 969,000 ordinary shares, out of which almost all of them have vested under their current terms. We expect to recognize share-based compensation expenses for the remaining vesting period of the outstanding options and nonvested shares, which may continue to impact our future results of operations. During the fiscal years of September 30, 2018, 2019 and 2020, we recognized share-based compensation expenses of \$2.3 million, \$2.0 million and \$2.6 million, respectively.

We provide three-year interest free, full recourse loans to employees and lecturers to exercise their options. As of September 30, 2020, 8,734,668 options had been exercised using this facility, amounting to a total loan amount of \$8.1 million. The outstanding balance of the loan was \$4.5 million as of September 30, 2020.

On November 28, 2017, we declared a cash dividend of \$0.1125 per ordinary share on our outstanding shares to shareholders of record as of the close of trading on January 12, 2018, and reduced the exercise price of all our outstanding options under our New Plan by the same amount per share accordingly.

On January 17, 2018, we issued 343,600 nonvested ordinary shares to executive directors, officers and employees under the New Plan. The vesting term of the nonvested ordinary shares is a two-year period, with four substantially equal semi-annual installments.

On December 28, 2018, we issued 353,200 nonvested ordinary shares to our executive directors, officers and employees under the New Plan. The vesting term of the nonvested ordinary shares is a two-year period, with four substantially equal semi-annual installments.

On December 20, 2019, we issued 541,132 nonvested ordinary shares to our executive directors, officers and employees under the New Plan. The vesting term of the nonvested ordinary shares is one year, with two equal semi-annual installments.

On March 17, 2020, we declared a cash dividend of \$0.145 per ordinary share on our outstanding shares to shareholders of record as of the close of trading on March 31, 2020, and reduced the exercise price of all our outstanding options under our New Plan by the same amount per share accordingly.

On November 13, 2020, we issued 458,168 nonvested ordinary shares to our executive directors, officers and employees under the New Plan. The vesting term of the nonvested ordinary shares is one year, with two equal semi-annual installments.

Options granted under our share incentive plans generally do not vest unless the grantee remains under our employment or in service with us on the given vesting date. Generally, if the grantee's employment or service with us is terminated for cause, all such grantee's options under our share incentive plans, vested and unvested, immediately terminate and become unexercisable. On the other hand, if the grantee's employment or service with us is terminated for any reason other than for cause, all such grantee's vested options terminate and become unexercisable ninety days following the grantee's last day of employment or service with us. In circumstances where there is a death or disability of the grantee, generally all unvested options immediately terminate and become unexercisable while vested options terminate and become unexercisable twelve months after the last date of employment or service with us. Generally, all unvested options granted under the Plan become fully vested immediately upon a change in the control of our company.

Our board of directors may amend, alter, suspend, or terminate our share incentive plans at any time, provided, however, that our board of directors must first seek the approval of the participants of our share incentive plans if such amendment, alteration, suspension or termination would adversely affect the rights of participants under any option granted prior to that date. Without further action by our board of directors, the New Plan will terminate in 2028.



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

<u>Name of Recipient</u>	<u>Type of Incentive Securities</u>	<u>Number of Ordinary Shares Issued or to be Issued</u>	<u>Exercise Price per Ordinary Share</u>	<u>Date of Grant or Issue</u>	<u>Vesting Start Date</u>	<u>Date of Expiration</u>
Carol Yu	nonvested ordinary shares	25,000 ordinary shares	not applicable	December 3, 2017	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	30,000 ordinary shares	not applicable	December 3, 2018	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	35,000 ordinary shares	not applicable	December 3, 2019	restriction removed on the first anniversary of the issue date	not applicable
Baohong Yin	nonvested ordinary shares	25,000 ordinary shares	not applicable	December 3, 2017	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	30,000 ordinary shares	not applicable	December 3, 2018	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	35,000 ordinary shares	not applicable	December 3, 2019	restriction removed on the first anniversary of the issue date	not applicable
Xiaoshu Chen	nonvested ordinary shares	25,000 ordinary shares	not applicable	December 3, 2017	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	30,000 ordinary shares	not applicable	December 3, 2018	restriction removed on the first anniversary of the issue date	not applicable

	nonvested ordinary shares	35,000 ordinary shares	not applicable	December 3, 2019	restriction removed on the first anniversary of the issue date	not applicable
Annabelle Yu Long	nonvested ordinary shares	25,000 ordinary shares	not applicable	December 3, 2017	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	30,000 ordinary shares	not applicable	December 3, 2018	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	35,000 ordinary shares	not applicable	December 3, 2019	restriction removed on the first anniversary of the issue date	not applicable
Liankui Hu	nonvested ordinary shares	25,000 ordinary shares	not applicable	December 3, 2017	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	30,000 ordinary shares	not applicable	December 3, 2018	restriction removed on the first anniversary of the issue date	not applicable
	nonvested ordinary shares	35,000 ordinary shares	not applicable	December 3, 2019	restriction removed on the first anniversary of the issue date	not applicable
Feijia Ji	nonvested ordinary shares	14,000 ordinary shares	not applicable	January 17, 2018	The vesting period is two years, with four equal semi-annual installments	not applicable
	nonvested ordinary shares	20,760 ordinary shares	not applicable	December 28, 2018	The vesting period is two years, with four equal semi-annual installments	not applicable
	nonvested ordinary shares	22,540 ordinary shares	not applicable	December 20, 2019	The vesting period is one year, with two equal semi-annual installments	not applicable

	nonvested ordinary shares	8,476 ordinary shares	not applicable	November 13, 2020	The vesting period is one year, with two equal semi-annual installments	not applicable
Mark Marostica	nonvested ordinary shares	33,680 ordinary shares	not applicable	January 17, 2018	The vesting period is two years, with four equal semi-annual installments	not applicable
	nonvested ordinary shares	36,480 ordinary shares	not applicable	December 28, 2018	The vesting period is two years, with four equal semi-annual installments	not applicable
	nonvested ordinary shares	291,968 ordinary shares	not applicable	January 12, 2019	The vesting period is one year, with two equal semi-annual installments	not applicable
	nonvested ordinary shares	42,120 ordinary shares	not applicable	December 20, 2019	The vesting period is one year, with two equal semi-annual installments	not applicable
	nonvested ordinary shares	220,504 ordinary shares	not applicable	January 12, 2020	The vesting period is one year, with two equal semi-annual installments	not applicable
Philip Chan	nonvested ordinary shares	33,680 ordinary shares	not applicable	January 17, 2018	The vesting period is two years, with four equal semi-annual installments	not applicable
	nonvested ordinary shares	35,280 ordinary shares	not applicable	December 28, 2018	The vesting period is two years, with four equal semi-annual installments	not applicable

	nonvested ordinary shares	160,000 ordinary shares	not applicable	January 1, 2019	The vesting period is one year, with two equal semi-annual installments	not applicable
	nonvested ordinary shares	41,856 ordinary shares	not applicable	December 20, 2019	The vesting period is one year, with two equal semi-annual installments	not applicable
	nonvested ordinary shares	173,052 ordinary shares	not applicable	January 1, 2020	The vesting period is one year, with two equal semi-annual installments	not applicable
	nonvested ordinary shares	41,236 ordinary shares	not applicable	November 13, 2020	The vesting period is one year, with two equal semi-annual installments	not applicable
Zhengdong Zhu	nonvested ordinary shares	38,160 ordinary shares	not applicable	January 17, 2018	The vesting period is two years, with four equal semi-annual installments	not applicable
	nonvested ordinary shares	58,360 ordinary shares	not applicable	December 28, 2018	The vesting period is two years, with four equal semi-annual installments	not applicable
	nonvested ordinary shares	109,904 ordinary shares	not applicable	December 20, 2019	The vesting period is one year, with two equal semi-annual installments	not applicable
	nonvested ordinary shares	133,968 ordinary shares	not applicable	November 13, 2020	The vesting period is one year, with two equal semi-annual installments	not applicable

## **C. Board Practices**

### **Duties of Directors**

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

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

- convening shareholders' meetings and reporting its work to shareholders at such meetings;
- implementing shareholders' resolutions;
- determining our business plans and investment proposals;
- formulating our profit distribution plans and loss recovery plans;
- determining our debt and finance policies and proposals for the increase or decrease in our registered capital and the issuance of debentures;
- formulating our major acquisition and disposition plans, and plans for merger, division or dissolution;
- proposing amendments to our second amended and restated memorandum of association and articles of association; and
- exercising any other powers conferred by the shareholders' meetings or under our second amended and restated memorandum of association and articles of association.

### **Terms of Executive Officers**

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

### **Terms of Directors**

We currently have a board of seven directors divided into class A, class B and class C directors. Mr. Feijia Ji is the class A director. The class B directors are Ms. Baohong Yin, Ms. Annabelle Yu Long and Mr. Xiaoshu Chen. The class C directors are Mr. Zhengdong Zhu, Ms. Carol Yu and Mr. Liankui Hu. One third of the directors (or, if their number is not a multiple of three (3), the number nearest to but not greater than one third) will retire from office and stand for election every year at our annual general meeting of shareholders on a rotating basis. At our 2020 annual general meeting, Ms. Carol Yu and Mr. Liankui Hu were re-elected as class C directors. Our chief executive officer, which currently is Mr. Zhengdong Zhu, is not, while holding office, subject to retirement or be taken into account in determining the number of directors to retire in any year. There are no director service contracts with us or any of our subsidiaries, controlled companies and affiliated entities providing for benefits upon termination of employment.

### **Board Practices**

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

### ***Audit Committee***

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

Our audit committee is responsible for, among other things:

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

### ***Compensation Committee***

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

Our compensation committee is responsible for:

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

#### ***Nomination Committee***

Our nomination committee consists of Mr. Zhengdong Zhu, Mr. Liankui Hu and Mr. Xiaoshu Chen. Mr. Zhengdong Zhu is the chairman of the nomination committee. Under the relevant NYSE rules, a foreign private issuer is permitted to follow "home country practice" in relation to the composition of its nomination committee. In this regard, we have elected to adopt the practices of our home country, the Cayman Islands, which does not require that any of the members of a company's nomination committee be independent directors. Our board of directors has determined that Mr. Liankui Hu and Mr. Xiaoshu Chen satisfy the "independence" requirements of the relevant rules of the NYSE and Rule 10A-3 under the Exchange Act. Our chairman and chief executive officer, Mr. Zhengdong Zhu, does not meet the definition of independence under such applicable rules.

Our nomination committee is responsible for, among other things:

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

#### ***Special Committee***

On June 19, 2020, our board of directors formed a special committee consisting of two independent directors, Ms. Carol Yu and Ms. Annabelle Yu Long, to consider the proposed going-private transaction and to negotiate with the Buyer Group, as it existed from time to time with the assistance of the special committee's financial and legal advisors.

#### **Corporate Governance**

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

## **Interested Transactions**

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

## **D. Employees**

We had 2,443, 2,160 and 2,457 full-time employees as of September 30, 2018, 2019 and 2020, respectively. In addition to the above full-time employees, we had 85 part-time employees as of September 30, 2020, of whom 28 are tutors.

As required by PRC regulations, our full-time employees in the PRC participate in a government mandated employee benefits plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to our employees. PRC labor regulations require that our PRC subsidiaries, controlled companies and affiliated entities make contributions to the government for these benefits based on certain percentages of the employees' salaries. We have no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits, which were expensed as incurred, were approximately \$12.3 million, \$12.8 million and \$8.8 million for the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

We recognize as expenses obligations for contributions to employee benefits plans for full-time employees in Hong Kong, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The total amount for our Hong Kong employee benefits was approximately \$9,100, \$13,600 and \$10,100 for the fiscal years ended September 30, 2018, 2019 and 2020, respectively.

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

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

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

## **E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares as of January 15, 2021, the latest practicable date by:

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



	Ordinary Shares Beneficially Owned	
	Number <sup>(1)</sup>	Percent <sup>(2)</sup>
<b>Directors and Executive Officers:</b>		
Zhengdong Zhu <sup>(3)</sup>	53,119,017	38.84%
Baohong Yin <sup>(4)</sup>	53,119,017	38.84%
Xiaoshu Chen <sup>(5)</sup>	2,234,800	1.63%
Mark Marostica	*	*
Philip Chan	*	*
Feijia Ji	*	*
Annabelle Yu Long	*	*
Liankui Hu	*	*
Carol Yu	*	*
Directors and Executive Officers Combined	58,117,548	42.50%
<b>Principal Shareholders:</b>		
Champion Shine Trading Limited <sup>(6)</sup>	52,752,617	38.58%
YM Investment Limited, The Li Family (PTC) Limited and Ms. Lam Lai Ming <sup>(7)</sup>	25,814,468	18.88%
Zhangxing Wang, Qi Wang, and Home Value Holding Co., Ltd. <sup>(8)</sup>	13,213,740	9.66%
Wells Fargo & Company and Wells Capital Management Incorporated <sup>(9)</sup>	9,430,972	6.90%

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

(1) The number of ordinary shares beneficially owned by each of the listed persons includes ordinary shares that such person has the right to acquire within 60 days after January 15, 2021.

(2) Percentage of beneficial ownership for each of the persons listed above is determined by dividing (i) the number of ordinary shares beneficially owned by such person by (ii) the total number of ordinary shares outstanding, plus the number of ordinary shares such person has the right to acquire within 60 days after January 15, 2021. The total number of ordinary shares outstanding as of January 15, 2021 is 136,747,601.

(3) Includes (i) 44,800,245 ordinary shares, and 7,952,372 ordinary shares represented by 1,988,093 ADSs, held by Champion Shine Trading Limited, (ii) 65,000 ordinary shares represented by 16,250 ADSs held by Baohong Yin, and (iii) 152,840 ordinary shares held by Zhengdong Zhu, and (iv) 148,560 ordinary shares consisting of restricted share awards of our company by Zhengdong Zhu. Champion Shine Trading Limited is a British Virgin Islands company whose sole shareholder is Zhengdong Zhu. The Chairman and the Deputy Chairman are husband and wife. Therefore, Zhengdong Zhu may be deemed to share the voting and dispositive power over the ordinary shares owned or beneficially owned by the Deputy Chairman. The business address of Zhengdong Zhu is 18th Floor, Xueyuan International Tower 1, Zhichun Road, Haidian District, Beijing 100083, China.

(4) Includes (i) 44,800,245 ordinary shares, and 7,952,372 ordinary shares represented by 1,988,093 ADSs, held by Champion Shine Trading Limited, (ii) 65,000 ordinary shares represented by 16,250 ADSs held by Baohong Yin, and (iii) 152,840 ordinary shares held by Zhengdong Zhu, and (iv) 148,560 ordinary shares consisting of restricted share awards of our company. Zhengdong Zhu is the sole shareholder of Champion Shine Trading Limited. Zhengdong Zhu and Baohong Yin are husband and wife. Therefore, Baohong Yin may be deemed to share the voting and dispositive power over the ordinary shares held by Zhengdong Zhu. The business address of Baohong Yin is 18th Floor, Xueyuan International Tower, 1 Zhichun Road, Haidian District, Beijing 100083, China.

(5) Includes (i) 1,000,000 ordinary shares, and 899,800 ordinary shares represented by 224,950 ADSs, held by Jetlong Investments Limited, (ii) 255,000 ordinary shares held by Xiaoshu Chen, and (iv) options to purchase 80,000 ordinary shares held by Xiaoshu Chen. Jetlong Investments Limited is a British Virgin Islands company whose sole shareholder and sole director is Xiaoshu Chen. The business address of Xiaoshu Chen is Southeastern University, No. 2 Sipailou, Nanjing 210096, China.

(6) Includes 44,800,245 ordinary shares and 1,988,093 ADSs representing 7,952,372 ordinary shares held by Champion Shine Trading Limited, a British Virgin Islands company whose sole shareholder and sole director is Zhengdong Zhu. The address of Champion Shine Trading Limited is Suites 1501-1503, 15th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

(7) The number of ordinary shares beneficially owned is as reported in a Schedule 13D filed by YM Investment Limited, The Li Family (PTC) Limited and Ms. Lam Lai Ming on February 14, 2020. The business address of YM Investment Limited reported on the Schedule 13D is c/o Vistra Corporate Services Center, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The business address of The Li Family (PTC) Limited reported on the Schedule 13D is 80 Main Street, P.O. Box 3200, Road Town, Tortola, VG 1110, British Virgin Islands. The residential address of Ms. Lam Lai Ming reported on the Schedule 13D is c/o Suite 2901, 29th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong.

- (8) The number of ordinary shares beneficially owned is as reported in a Schedule 13D filed by Zhangxing Wang, Qi Wang, Home Value Holding Co., Ltd. on December 2, 2020. Zhangxing Wang and Qi Wang's principal business addresses as reported in the Schedule 13D is 42/F, World Trade Tower, No. 500 Guangdong Road, Shanghai, People's Republic of China. The principal office of the Home Value as reported in the Schedule 13D is the offices of Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Island.
- (9) The number of Ordinary Shares beneficially owned is as reported in a Schedule 13G filed by Wells Fargo & Company on February 4, 2020. The business address of Wells Fargo & Company as reported in the Schedule 13G is 420 Montgomery Street, San Francisco, CA 94163. The business address of Wells Capital Management Incorporated as reported in the Schedule 13G is 525 Market St, 10th Floor, San Francisco, CA 94105.

As of September 30, 2020, of the 135,320,433 issued and outstanding ordinary shares, approximately 66.3% of those ordinary shares are held in the U.S., all under one registered holder of record.

None of our existing shareholders has voting rights that differ from the voting rights of other shareholders.

For information on options and nonvested shares granted to our existing shareholders, directors and officers, see "Item 6.B. Director, Senior Management and Employees — Compensation — Share Options, Nonvested Shares and Share Incentive Plans."

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

On August 18, 2018, Champion Shine Trading Limited entered into a share purchase agreement with Renwen Holdings Limited, pursuant to which Champion Shine Trading Limited purchased 2,279,760 ordinary shares from Renwen Holdings Limited.

In the period from January 1, 2018 until January 15, 2021, Champion Shine Trading Limited sold an aggregate of 1,325,788 ordinary shares as represented by 331,447 ADSs in the open market and acquired an aggregate of 2,867,848 ordinary shares as represented by 716,962 ADS in the open market.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

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

### **B. Related Party Transactions.**

#### **Agreements among us, Beijing Champion, Champion Healthcare Education and Their Shareholders and Agreement among us and Zhengbao Yucai**

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

### **Transactions with Champion Yuanjian**

We have routinely engaged in a number of transactions in the ordinary course of business with Champion Yuanjian, in which the Company holds 40% of the equity interests. Related party transactions with Champion Yuanjian consist primarily of student recruitment and other related services. The financial arrangements and other key terms under these transactions are substantially similar to those that we have with unrelated third parties. Commission service fees payable to Champion Yuanjian for the year ended September 30, 2020 totaled \$1.9 million and were related to student recruitment services. As of September 30, 2020, \$2.5 million was due to the Company from Champion Yuanjian.

### **Transactions with Beijing Qiuxue**

We have routinely engaged in a number of transactions in the ordinary course of business with Beijing Qiuxue Technology Co., Ltd., or Beijing Qiuxue, in which the Company holds 40% of the equity interests. Related party transactions with Beijing Qiuxue consist primarily of student recruitment and other related services. The financial arrangements and other key terms under these transactions are substantially similar to those that we have with unrelated third parties. Commission service fees payable to Beijing Qiuxue for the year ended September 30, 2020 totaled \$8.9 million and were related to student recruitment services. As of September 30, 2020, \$0.5 million was due to Beijing Qiuxue from the Company.

### **C. Interests of Experts and Counsel**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

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

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

### **Legal Proceedings**

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

### **Dividend Policy**

On November 28, 2017 and March 17, 2020, our board of directors approved and declared a special cash dividend of \$0.1125 and \$0.145 per ordinary share on our outstanding ordinary shares to shareholders of record as of the close of trading on January 12, 2018 and March 31, 2020, respectively. Holders of ADSs were accordingly entitled to the cash dividend of \$0.45 and \$0.58 per ADS, respectively.

Under the terms of the Merger Agreement, we are not permitted to pay any dividends pending consummation of the Merger.

In the event the Merger Agreement is terminated for any reason and the Merger is not consummated, 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, market conditions, and other factors our board of directors may deem relevant. Holders of our ADSs will be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as the holders of our ordinary shares. Cash dividends will be paid to the depositary in U.S. dollars, which will distribute them to the holders of ADSs according to the terms of the deposit agreement. Other distributions, if any, will be paid by the depositary to the holders of ADSs in any means it deems legal, fair and practical.

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

## **B. Significant Changes**

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

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

### **A. Offer and listing details.**

Our ADSs are listed for trading on the NYSE under the symbol “DL”.

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

Not applicable.

### **C. Markets**

See Item 9.A. above.

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

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

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. Share capital**

Not applicable.

## B. Memorandum and Articles of Association

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

### Differences in Corporate Law

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

The Companies Law is modeled after similar laws in the United Kingdom but does not follow recent changes in United Kingdom laws. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States.

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

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

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

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

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must, in addition, represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

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

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

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

*Shareholders' Suits.* In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or beyond the scope of its authority;
- the act complained of, although not beyond the scope of its authority, could be effected duly if authorized by more than a simple majority vote which has not been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

*Corporate Governance.* Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe a fiduciary duty to the companies for which they serve. Under our second amended and restated memorandum of association and articles of association, subject to any separate requirement for audit committee approval under the applicable rules of the NYSE or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such meeting.

#### **C. Material Contracts**

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

#### **D. Exchange Controls**

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 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 banks authorized 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.

## **Regulation of Foreign Exchange Registration of Offshore Investment by PRC Residents**

Pursuant to the SAFE Notice on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Round-Trip Investment Conducted by Domestic Residents through Special-Purpose Vehicles, or SAFE Circular 37, which became effective as of July 4, 2014, a PRC Resident, including both PRC domestic institutions and PRC domestic individual residents, shall register with the local branch of SAFE before it establishes or controls a company outside of China with the domestic or overseas assets or equity they legally hold for the purpose of investment and financing and conducting roundtrip investment in China. Such a company located outside of China is referred to as an offshore special purpose vehicle. Under SAFE Circular 37, failure to comply with the registration procedures set forth above may result in the penalties, including fine and imposition of restrictions on a PRC subsidiary's foreign exchange activities. Prior to the implementation of Circular 37, if a PRC resident contributed domestic legitimate assets or interests into a Special-Purpose Vehicle without completing the foreign exchange registration of overseas investments as required, he or she shall submit an explanatory letter to the local branch of SAFE. The local branch of SAFE shall, under the principle of legality and legitimacy, conduct supplementary registration, and impose administrative punishment on those violating the administrative regulations on foreign exchange according to the applicable laws.

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

## **Dividend Distributions**

See "Item 8.A. Financial Information — Consolidated statements and other financial information — Dividend Policy" in connection with our policy regarding dividend distributions. See also "Item 3.D. Key Information — Risk Factors — Risks Relating to Our ADSs — You may not receive distributions on our ordinary shares or any value for them if such distribution is illegal or if any required government approval cannot be obtained in order to make such distribution available to you."

## **E. Taxation**

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

### **Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADSs or ordinary shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties, except for a dual tax treaty entered into with the United Kingdom in 2010. There are no exchange control regulations or currency restrictions in the Cayman Islands.

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

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

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

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

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

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

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

This discussion describes the material U.S. federal income tax consequences of the purchase, ownership and disposition of our ADSs or ordinary shares to U.S. Holders (as defined below) who hold their ADSs or ordinary shares as capital assets. This discussion does not address any aspect of the U.S. federal gift or estate tax, the state, local or non-U.S. tax or the Medicare tax consequences of an investment in our ADSs and ordinary shares. In addition, this discussion does not apply to U.S. Holders who are subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or certain financial institutions;
- insurance companies;
- tax-exempt organizations;
- partnerships or other entities treated as partnerships or other pass-through entities for U.S. federal income tax purposes or persons holding ADSs or ordinary shares through any such entities;
- regulated investments companies or real estate investment trusts;
- persons that hold ADSs or ordinary shares as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or



- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares entitled to vote (including ADSs and ordinary shares).

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, which we refer to in this discussion as the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion is based in part, upon the assumption that the deposit agreement and any related agreement will be performed in accordance with their terms.

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

For purposes of the U.S. federal income tax discussion below, you are a “U.S. Holder” if you beneficially own ADSs or ordinary shares and are:

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

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

#### **Dividends on ADSs and ordinary shares; foreign tax credits**

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

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

#### **Sales and other dispositions of ADSs or ordinary shares**

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

## Passive Foreign Investment Company

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

We believe that we were not a PFIC for U.S. federal income tax purposes for our taxable year ended September 30, 2020. However, the application of the PFIC rules is subject to ambiguity in several respects, and, in addition, PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets and, since the value of our assets is calculated by reference to the market prices of our ADSs and ordinary shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC in any future taxable year.

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

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

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

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

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

#### **U.S. information reporting and backup withholding rules**

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

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

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts.**

Not applicable.

#### **H. Documents on Display**

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

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

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

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

## **I. Subsidiary Information**

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

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

### **Quantitative and Qualitative Disclosures about Market Risk**

#### ***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to our interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and short-term investments, and also relates to our interest expenses incurred by bank borrowings, as of the date of this annual report. We have not used derivative financial instruments in our portfolio. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations and our future interest expenses may be out of expectation due to changes in market interest rates.

#### ***Foreign Currency Risk***

Substantially all of our revenues and expenditures are denominated in Renminbi. As a result, fluctuations in the exchange rate between the U.S. dollars and Renminbi will affect our financial results in U.S. dollars terms without giving effect to any underlying change in our business or results of operations. The Renminbi's exchange rate with the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. The People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate and achieve certain exchange rate targets, and through such intervention kept the U.S. dollar-Renminbi exchange rate relatively stable within a very narrow range against the U.S. dollar (remaining within 1% of its July 2008 high) for almost two years from July 2008. On June 20, 2010, the People's Bank of China announced that the PRC government would further reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. On March 15, 2014, the People's Bank of China announced that it expanded the daily RMB against U.S. dollar trading band of the inter-bank spot foreign exchange market from 1% to 2% as of March 17, 2014, to allow Renminbi to move more freely and better reflect market supply and demand. On August 11, 12 and 13, 2015, the People's Bank of China significantly devalued the Renminbi by fixing its price against the U.S. dollar 1.9%, 1.6%, and 1.1% lower than the previous day's value, respectively. The value of Renminbi against the U.S. dollar depreciated approximately 5.0% in 2018, depreciated approximately 1.6% in 2019, and appreciated approximately 6.5% in 2020. It is difficult to predict how market forces 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 to each other in recent years, 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 substantial liberalization of its currency policy, which could result in a further and more significant change in the value of the Renminbi against the U.S. dollar.

To the extent that we need to convert our U.S. dollar denominated cash balance into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Assuming we had converted the U.S. dollar denominated cash balance of \$2.2 million as of September 30, 2020 into Renminbi at the exchange rate of \$1.00 for RMB6.7896 as of September 30, 2020, this cash balance would have been RMB15.0 million. Assuming a further 1% appreciation of the Renminbi against the U.S. dollar, this cash balance would have decreased to RMB14.9 million as of September 30, 2020.

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

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

### **A. Debt Securities.**

Not applicable.

### **B. Warrants and Rights.**

Not applicable.

### **C. Other Securities.**

Not applicable.

### **D. American Depositary Shares.**

#### **Fees and Charges Payable by a Holder of American Depositary Receipts**

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

- Expenses incurred by the depositary, the custodian or their respective agents in connection with inspections of the relevant share register maintained by the local registrar and/or performing due diligence on the central securities depository: an annual fee of US\$1.00 per 100 ADSs (such fee to be assessed against holders of record as at the date or dates set by the depositary as it sees fit and collected at the discretion of the depositary, subject to our prior consent, by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions)
- Taxes and other governmental charges incurred by the depositary or the custodian on any ADR or ordinary shares underlying an ADR, including any applicable interest and penalties thereon, and any share transfer or other taxes and other governmental charges
- Cable, telex, electronic transmission and delivery expenses

- Transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities including those of a central depository for securities (where applicable)
- Expenses of the depository in connection with the conversion of foreign currency into U.S. dollars
- Fees and expenses incurred by the depository in connection with compliance with exchange control regulations and other regulatory requirements applicable to the shares, deposited securities and ADSs; and
- Any other fees, charges, costs or expenses that may be incurred by the depository from time to time

In the case of cash distributions, fees are generally deducted from the cash being distributed. Service fees may be collected from holders of ADSs in a manner determined by the depository with respect to ADSs registered in the name of investors (whether certificated or in book-entry form) and ADSs held in brokerage and custodian accounts (via DTC). In the case of distributions other than cash (i.e., stock dividends, rights, etc.), the depository charges the applicable ADS record date holder concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or in book-entry form), the 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 may, if permitted by the settlement systems provided by DTC, collect the fees through such settlement systems (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in such case may in turn charge their clients' accounts the amount of the service fees paid to the depository.

In the event of refusal to pay the service fee, 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 service fee from any distribution to be made to the ADS holder.

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

#### **Fees and Other Direct and Indirect Payments Made by the Depository**

Since the commencement of our most recent fiscal year, we have not received direct and indirect payments for expenses incurred by us relating to the ADR program.

## **PART II**

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

None.

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

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

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

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

Our management, with the participation of our chief executive officer and co-chief financial officers, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our chief executive officer and co-chief financial officers have concluded that, as of September 30, 2020, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and co-chief financial officers, to allow timely decisions regarding required disclosure.

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

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

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

As required by Section 404 of the Sarbanes-Oxley Act and related rules as promulgated by the SEC, our management, with the participation of our chief executive officer and our co-chief financial officers, evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of September 30, 2020.

Our independent registered public accounting firm has audited our internal control over financial reporting as of September 30, 2020 and has issued an attestation report set forth below.

### **Report of Independent Registered Public Accounting Firm**

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

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of China Distance Education Holdings Limited and subsidiaries (the "Company") as of September 30, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and the financial statement schedule (collectively referred to as the “financial statements”) as of and for the year ended September 30, 2020 of the Company and our report dated January 22, 2021 expressed an unqualified opinion on those financial statements.

### **Basis for Opinion**

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

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

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

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Beijing, the People’s Republic of China  
January 22, 2021

### **Changes in Internal Control over Financial Reporting**

There were no significant changes in our internal control over financial reporting during the year ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## ITEM 16. [RESERVED]

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

### ITEM 16B. CODE OF ETHICS

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

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

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP, our principal external auditors, in the fiscal year ended September 30, 2019 and 2020, respectively.

	Fiscal Year ended September 30,			
	2019		2020	
	RMB	US\$	RMB	US\$
Audit fees <sup>(1)</sup>	5,574,400	832,000	5,915,000	845,000
Audit-related fees <sup>(2)</sup>	3,001,600	448,000	3,185,000	455,000
Tax and accounting consulting fees <sup>(3)</sup>	320,000	47,761	80,000	11,429

(1) “Audit fees” means the aggregate fees billed or payable for professional services rendered by our independent auditors in connection with the audit of our consolidated financial statements or the review of our interim consolidated financial statements required for statutory or regulatory filings.

(2) “Audit-related fees” means the aggregate fees billed or payable for professional services rendered by our independent auditors in connection with the review of our interim consolidated financial statements not required for statutory or regulatory filings.

(3) “Tax and accounting consulting fees” means the aggregate fees billed or payable for tax compliance services, transfer pricing and requests for rulings or technical advice from taxing authorities and tax planning services, and accounting consulting services for the application of generally accepted accounting principles.

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

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

None.

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

On June 25, 2018, Mr. Zhengdong Zhu, Chairman and CEO of CDEL, had informed the Company of his intention to use his personal funds to purchase the Company's shares for an amount up to a maximum of \$25 million worth of our issued and outstanding ADSs from time to time within one year. As of such purchase was completed by June 24, 2019, Mr. Zhu purchased 716,962 ADSs on the open market and 2,279,760 ordinary shares from a third party, for a total consideration of \$11.1 million. The purchases were made at prevailing market prices, in negotiated transactions off the market and/or in block trades, pursuant to Rule 10b-18 of the Exchange Act and a 10b5-1 plan of Mr. Zhengdong Zhu (the 10b5-1 plan allows Mr. Zhengdong Zhu and Champion Shine Trading Limited to purchase our ADSs during periods in which they may be in possession of material non-public information) or otherwise. The purchases were made subject to restrictions relating to volume, price and timing. The timing and extent of the purchases depended upon market conditions, the trading price of our ADSs and other factors.

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

None.

**ITEM 16G. CORPORATE GOVERNANCE**

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

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

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

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

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

**ITEM 18. FINANCIAL STATEMENTS**

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

## ITEM 19. EXHIBITS

### Index to Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
1.1	<u>—Form of Second Amended and Restated Memorandum of Association and Articles of Association of the Registrant<sup>(1)</sup></u>
2.1	<u>—Form of Ordinary Share Certificate.<sup>(1)</sup></u>
2.2	<u>—Form of Deposit Agreement between the Registrant and Deutsche Bank Trust Company Americas, as depository.<sup>(2)</sup></u>
2.3	<u>—Form of American depository receipt evidencing American depository shares (included in Exhibit 2.2).<sup>(2)</sup></u>
2.4	<u>—Restricted Issuance Agreement between the Registrant and Deutsche Bank Trust Company Americas, as depository, dated August 16, 2010.<sup>(3)</sup></u>
2.5*	<u>—Description of Securities Registered under Section 12 of the U.S. Exchange Act</u>
4.1	<u>—Technical Support and Consultancy Services Agreement between Beijing Champion Distance Education Technology Co., Ltd. and Beijing Champion Hi-Tech Co., Ltd., dated May 1, 2004.<sup>(1)</sup></u>
4.2	<u>—Equity Pledge Agreement between Beijing Champion Distance Education Technology Co., Ltd and Zhengdong Zhu, dated May 1, 2004.<sup>(1)</sup></u>
4.3	<u>—Equity Pledge Agreement between Beijing Champion Distance Education Technology Co., Ltd. and Baohong Yin, dated May 1, 2004.<sup>(1)</sup></u>
4.4	<u>—Exclusive Purchase Rights Agreement among China Distance Education Limited, Beijing Champion Hi-Tech Co., Ltd. and Zhengdong Zhu, dated May 9, 2004.<sup>(1)</sup></u>
4.5	<u>—Exclusive Purchase Rights Agreement among China Distance Education Limited, Beijing Champion Hi-Tech Co., Ltd. and Baohong Yin, dated May 9, 2004.<sup>(1)</sup></u>
4.6	<u>—Courseware License Agreement between Beijing Champion Hi-Tech Co., Ltd. and Beijing Champion Distance Education Technology Co., Ltd., dated August 1, 2004.<sup>(1)</sup></u>
4.7	<u>—Software License Agreement between Beijing Champion Education Technology Co., Ltd. and Beijing Champion Hi-Tech Co., Ltd., dated May 20, 2007.<sup>(1)</sup></u>
4.8	<u>—Courseware Production Entrustment Agreement between Beijing Champion Education Technology Co., Ltd. and Beijing Champion Hi-Tech Co., Ltd., dated May 20, 2007.<sup>(1)</sup></u>
4.9	<u>—Letter of Undertaking from Beijing Champion Distance Education Technology Co., Ltd. to Beijing Champion Hi-Tech Co., Ltd., dated February 13, 2008.<sup>(1)</sup></u>
4.10	<u>—Letter of Undertaking from Zhengdong Zhu and Baohong Yin to Beijing Champion Distance Education Technology Co., Ltd., dated February 13, 2008.<sup>(1)</sup></u>
4.11	<u>—Declaration Letter by Zhengdong Zhu, dated March 24, 2008.<sup>(1)</sup></u>
4.12	<u>—Declaration Letter by Baohong Yin, dated March 24, 2008.<sup>(1)</sup></u>
4.13	<u>—Power of Attorney by Zhengdong Zhu, dated March 25, 2008.<sup>(1)</sup></u>
4.14	<u>—Power of Attorney by Baohong Yin, dated March 25, 2008.<sup>(1)</sup></u>
4.15	<u>—Notice from Beijing Champion Distance Education Technology Co., Ltd. to Beijing Champion Hi-Tech Co., Ltd., Zhengdong Zhu and Baohong Yin, dated March 25, 2008.<sup>(1)</sup></u>
4.16	<u>—Acknowledgement Letter from Zhengdong Zhu and Baohong Yin to the Registrant, dated March 25, 2008.<sup>(1)</sup></u>

- 4.17 —Acknowledgement Letter from Zhengdong Zhu and Baohong Yin to Beijing Champion Distance Education Technology Co., Ltd., dated March 25, 2008. <sup>(1)</sup>
- 4.18 —Form confidentiality and non-competition agreement. <sup>(1)</sup>
- 4.19 —Incentive share plan. <sup>(1)</sup>
- 4.20 —2008 Performance Incentive Plan. <sup>(1)</sup>
- 4.21 —Amended and Restated 2008 Performance Incentive Plan (dated February 16, 2009). <sup>(4)</sup>
- 4.22 —Amended and Restated 2008 Performance Incentive Plan (dated May 21, 2012). <sup>(5)</sup>
- 4.23 —Amended and Restated 2008 Performance Incentive Plan (dated November 28, 2017). <sup>(6)</sup>
- 4.24 —Amended and Restated Equity Pledge Agreement between Beijing Champion Distance Education Technology Co., Ltd. and Zhengdong Zhu, dated December 31, 2008. <sup>(4)</sup>
- 4.25 —Amended and Restated Equity Pledge Agreement between Beijing Champion Distance Education Technology Co., Ltd. and Baohong Yin, dated December 31, 2008. <sup>(4)</sup>
- 4.26 —Tri-party Agreement re VIE Structure among Beijing Champion Distance Education Technology Co., Ltd., Zhengdong Zhu and Beijing Champion Hi-Tech Co., Ltd, dated January 30, 2013. <sup>(5)</sup>
- 4.27 —Tri-party Agreement re VIE Structure among Beijing Champion Distance Education Technology Co., Ltd., Baohong Yin and Beijing Champion Hi-Tech Co., Ltd, dated January 30, 2013. <sup>(5)</sup>
- 4.28 —Spousal Consent Letter by Zhengdong Zhu, dated January 30, 2013. <sup>(5)</sup>
- 4.29 —Spousal Consent Letter by Baohong Yin, dated January 30, 2013. <sup>(5)</sup>
- 4.30 —Exclusive Business Cooperation Agreement between Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd. and Beijing Champion Healthcare Education Technology Co., Ltd., dated December 28, 2015. <sup>(7)</sup>
- 4.31 —Equity Pledge Agreement among Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd., Zhengdong Zhu and Baohong Yin, dated December 28, 2015. <sup>(7)</sup>
- 4.32 —Exclusive Option Agreement among Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd., Beijing Champion Healthcare Education Technology Co., Ltd., Zhengdong Zhu and Baohong Yin, dated December 28, 2015. <sup>(7)</sup>
- 4.33 —Power of Attorney by Zhengdong Zhu, dated December 28, 2015. <sup>(7)</sup>
- 4.34 —Power of Attorney by Baohong Yin, dated December 28, 2015. <sup>(7)</sup>
- 4.35 —Letter of Undertaking from Zhengdong Zhu and Baohong Yin to Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd., dated December 28, 2015. <sup>(7)</sup>
- 4.36 —Letter of Undertaking from Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd. to Beijing Champion Healthcare Education Technology Co., Ltd., dated December 28, 2015. <sup>(7)</sup>
- 4.37 —Tri-party Agreement re VIE Structure among Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd., Zhengdong Zhu, Baohong Yin and Beijing Champion Healthcare Education Technology Co., Ltd., dated December 28, 2015. <sup>(7)</sup>
- 4.38 —Spouse Consent Letter by Zhengdong Zhu, dated December 28, 2015. <sup>(7)</sup>
- 4.39 —Spouse Consent Letter by Baohong Yin, dated December 28, 2015. <sup>(7)</sup>
- 4.40 —Agreement and Plan of Merger by and among Champion Distance Education Investments Limited, China Distance Learning Investments Limited and China Distance Education Holdings Limited, dated December 1, 2020. <sup>(8)</sup>

- 8.1\* [—Subsidiaries of Registrant.](#)
- 11.1 [—Code of Business Conduct and Ethics of the Registrant. <sup>\(1\)</sup>](#)
- 12.1\* [—CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 12.2\* [—CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 13.1\*\* [—CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 13.2\*\* [—CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 15.1\* [—Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP.](#)
- 15.2\* [—Consent of Jingtian & Gongcheng.](#)
- 101.INS\* —Inline XBRL Instance Document — the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
- 101.SCH\* —Inline XBRL Taxonomy Extension Schema Document
- 101.CAL\* —Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* —Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB\* —Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* —Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104\* Cover Page Interactive Data File — the cover page XBRL tags are embedded within the Exhibit 101 Inline XBRL document set

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- (1) Incorporated by reference to Exhibit 4.2 to the Registrant’s registration statement on Form F-1 (File No. 333-152167) filed with the SEC on July 7, 2008, as amended.
- (2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-152345) furnished with the SEC with respect to American depositary shares representing our ordinary shares on July 15, 2008.
- (3) Incorporated by reference to Exhibit 2.4 to the Registrant’s Annual Report on Form 20-F (File No. 001-34122) for the year ended September 30, 2010 filed with the SEC on March 25, 2011.
- (4) Incorporated by reference to the Registrant’s Annual Report on Form 20-F (File No. 001-34122) for the year ended September 30, 2008 filed with the SEC on March 16, 2009.
- (5) Incorporated by reference to the Registrant’s Annual Report on Form 20-F (File No. 001-34122) for the year ended September 30, 2012 filed with the SEC on January 31, 2013.
- (6) Incorporated by reference to Exhibit A to the Form 6-K (File No. 001-34122) furnished with the SEC on April 20, 2018.
- (7) Incorporated by reference to the Registrant’s Annual Report on Form 20-F (File No. 001-34122) for the year ended September 30, 2015 filed with the SEC on January 27, 2016.
- (8) Incorporated by reference to Exhibit 99.2 to the Form 6-K (File No. 001-34122) furnished with the SEC on December 1, 2020.

\* Filed herewith

\*\* Furnished herewith

**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.

**China Distance Education Holdings Limited**

\_\_\_\_\_  
/s/ Mark Marostica  
Name: Mark Marostica  
Title: Co-Chief Financial Officer

\_\_\_\_\_  
/s/ Philip Chan  
Name: Philip Chan  
Title: Co-Chief Financial Officer

Date: January 22, 2021

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<u>CONTENTS</u>	<u>PAGE</u>
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	F-2
<u>CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2019 AND 2020</u>	F-4
<u>CONSOLIDATED STATEMENTS OF OPERATIONS</u> <u>FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020</u>	F-6
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u> <u>FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020</u>	F-7
<u>CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY</u> <u>FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020</u>	F-8
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u> <u>FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020</u>	F-9
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	F-11
<u>ADDITIONAL INFORMATION - FINANCIAL STATEMENT SCHEDULE I</u>	F-82

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the stockholders and the Board of Directors of  
China Distance Education Holdings Limited  
Beijing, the People's Republic of China

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of China Distance Education Holdings Limited and subsidiaries (the "Company") as of September 30, 2020 and 2019, the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows, for each of the three years in the period ended September 30, 2020, and the related notes and the schedule listed in the Index (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 22, 2021 expressed an unqualified opinion on the Company's internal control over financial reporting.

### **Change in Accounting Principle**

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for leases in the year ended September 30, 2020 due to the modified retrospective adoption of Accounting Standard Codification 842, Leases.

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for revenue from contracts with customers in the year ended September 30, 2019 due to the modified retrospective adoption of Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM - continued**

To the stockholders and the Board of Directors of  
China Distance Education Holdings Limited  
Beijing, the People's Republic of China

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Beijing, the People's Republic of China  
January 22, 2021

We have served as the Company's auditor since 2009.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

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

	As of September 30,	
	2019	2020
	US\$	US\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	67,977	80,056
Term deposits	—	13,440
Restricted cash - current	38,358	4,212
Short-term investments	22,118	20,343
Accounts receivable, net of allowance for doubtful accounts of US\$1,282 and US\$1,864 as of September 30, 2019 and 2020, respectively	7,330	6,154
Inventories	4,232	4,863
Prepayment and other current assets	26,732	31,315
Amounts due from related parties	515	3,074
Deferred costs	1,427	1,657
<b>Total current assets</b>	<b>168,689</b>	<b>165,114</b>
<b>Non-current assets</b>		
Restricted cash – non-current	—	16,849
Property, plant and equipment, net	37,935	42,331
Operating lease right-of-use assets	—	30,029
Goodwill, net	74,829	78,966
Other intangible assets, net	30,113	23,161
Deposit for purchases of non-current assets	4,448	2,186
Long-term investments	25,379	26,324
Deferred tax assets	3,865	5,690
Other non-current assets	10,092	7,489
<b>Total non-current assets</b>	<b>186,661</b>	<b>233,025</b>
<b>Total assets</b>	<b>355,350</b>	<b>398,139</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Bank borrowings	38,502	4,012
Accrued expenses and other liabilities (including accrued expenses and other liabilities of the consolidated variable interest entities or VIEs without recourse to China Distance Education Holdings Limited of US\$35,491 and US\$49,232 as of September 30, 2019 and 2020, respectively)	38,267	55,454
Amounts due to related parties	600	802
Income tax payable (including income tax payable of the consolidated VIEs without recourse to China Distance Education Holdings Limited of US\$8,188 and US\$14,451 as of September 30, 2019 and 2020, respectively)	10,899	17,378
Deferred revenue – current (including deferred revenue – current of the consolidated VIEs without recourse to China Distance Education Holdings Limited of US\$93,364 and US\$104,929 as of September 30, 2019 and 2020, respectively)	94,202	105,953
Operating lease liabilities, current (including operating lease liabilities, current of the consolidated VIEs without recourse to China Distance Education Holdings Limited of nil and US\$3,835 as of September 30, 2019 and 2020, respectively)	—	4,160
Refundable fees – current (including refundable fees – current of the consolidated VIEs without recourse to China Distance Education Holdings Limited of US\$435 and US\$1,729 as of September 30, 2019 and 2020, respectively)	435	1,729
<b>Total current liabilities</b>	<b>182,905</b>	<b>189,488</b>

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

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

	As of September 30,	
	2019	2020
	US\$	US\$
<b>Non-current liabilities</b>		
Deferred revenue – non-current (including deferred revenue – non-current of the consolidated VIEs without recourse to China Distance Education Holdings Limited of US\$33,564 and US\$33,928 as of September 30, 2019 and 2020, respectively)	33,564	33,928
Refundable fees – non-current (including refundable fees– non-current of the consolidated VIEs without recourse to China Distance Education Holdings Limited of US\$2,440 and US\$2,602 as of September 30, 2019 and 2020, respectively)	2,440	2,602
Deferred tax liabilities	12,695	6,088
Long-term bank borrowing	—	16,000
Operating lease liabilities, non-current (including operating lease liabilities, non-current of the consolidated VIEs without recourse to China Distance Education Holdings Limited of nil and US\$22,749 as of September 30, 2019 and 2020, respectively)	—	23,089
<b>Total non-current liabilities</b>	<b>48,699</b>	<b>81,707</b>
<b>Total liabilities</b>	<b>231,604</b>	<b>271,195</b>
<b>Commitments and contingencies (Note 22)</b>		
<b>Equity</b>		
Ordinary shares (par value of US\$0.0001 per share; 500,000,000 shares authorized; 134,210,745 and 135,320,433 shares issued and outstanding as of September 30, 2019 and 2020, respectively)	13	14
Additional paid-in capital	24,507	27,316
Accumulated other comprehensive loss	(12,357)	(832)
Retained earnings	60,668	51,477
<b>Total China Distance Education Holdings Limited shareholder’s equity</b>	<b>72,831</b>	<b>77,975</b>
Noncontrolling interests	50,915	48,969
<b>Total equity</b>	<b>123,746</b>	<b>126,944</b>
<b>Total liabilities and equity</b>	<b>355,350</b>	<b>398,139</b>

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

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except share and per share data, or otherwise noted)

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Revenues, net of value-added tax and related surcharges			
Online education services	117,026	145,917	159,338
Books and reference materials	10,213	27,372	22,061
Others	39,429	38,533	28,159
Total net revenues	166,668	211,822	209,558
Cost of sales			
Cost of services and others	(78,936)	(85,252)	(81,976)
Cost of tangible goods sold	(8,947)	(19,489)	(19,622)
Total cost of sales	(87,883)	(104,741)	(101,598)
Gross profit	78,785	107,081	107,960
Operating expenses			
Selling expenses	(44,717)	(61,460)	(69,848)
General and administrative expenses	(21,253)	(24,919)	(25,478)
Impairment of goodwill	—	(1,517)	—
Total operating expenses	(65,970)	(87,896)	(95,326)
Change in fair value in connection with business combination	84	695	—
Other operating income	3,051	2,968	6,155
Operating income	15,950	22,848	18,789
Interest income	2,522	2,207	2,555
Interest expenses	(3,331)	(2,819)	(1,021)
Gain from deconsolidation of a subsidiary	—	6,869	—
Impairment loss from long-term investments	(2,835)	(6,920)	(910)
Other income	—	318	—
Exchange gain (loss)	2,476	3,296	(5,261)
Income before income taxes and loss from equity method investments	14,782	25,799	14,152
Income tax expenses	(2,307)	(8,121)	(5,460)
Loss from equity method investments	(172)	(1,484)	(555)
Net income	12,303	16,194	8,137
Less: Net income (loss) attributable to noncontrolling interests	677	(5,060)	(2,293)
Net income attributable to China Distance Education Holdings Limited	11,626	21,254	10,430
Net income per share:			
Net income attributable to ordinary shareholders			
Basic	0.09	0.16	0.08
Diluted	0.09	0.16	0.08
Weighted average shares used in calculating net income per share			
Basic	132,363,620	133,060,900	133,984,929
Diluted	133,117,155	134,138,117	135,232,224

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

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(In thousands)**

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Net income	12,303	16,194	8,137
Other comprehensive (loss) income, net of tax			
Foreign currency translation adjustments	(8,118)	(8,854)	13,733
Unrealized gain on available-for-sale investments, net of tax effect of US\$420, US\$219 and US\$79 for the years ended September 30, 2018, 2019 and 2020, respectively	2,599	1,375	318
Comprehensive income	6,784	8,715	22,188
Less: comprehensive (loss) income attributable to noncontrolling interests	(1,196)	(7,195)	233
Comprehensive income attributable to China Distance Education Holdings Limited	<u>7,980</u>	<u>15,910</u>	<u>21,955</u>

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In thousands, except share data)

	China Distance Education Holding Limited shareholders							
	Number of ordinary shares	Ordinary shares US\$	Additional paid-in capital US\$	Accumulated other comprehensive loss US\$	Retained earnings US\$	Total China	Noncontrolling interests US\$	Total equity US\$
						Distance Education Holding Limited shareholders' equity US\$		
Balance as of September 30, 2017	131,854,773	13	19,097	(3,367)	33,040	48,783	24,029	72,812
Net income for the year	—	—	—	—	11,626	11,626	677	12,303
Foreign currency translation adjustments	—	—	—	(6,245)	—	(6,245)	(1,873)	(8,118)
Options exercised	952,148	—	1,489	—	—	1,489	—	1,489
Share-based compensation expenses (Note 26)	468,600	—	2,306	—	—	2,306	—	2,306
Dividends to shareholders (Note 27)	—	—	—	—	(14,949)	(14,949)	—	(14,949)
Capital contribution from noncontrolling interests	—	—	29	—	—	29	60	89
Noncontrolling interest arising from acquisitions	—	—	—	—	—	—	42,598	42,598
Unrealized gain on available-for-sale investments, net of tax effect of US\$420	—	—	—	2,599	—	2,599	—	2,599
Loan to optionees in connection with exercise of options	—	—	(1,557)	—	—	(1,557)	—	(1,557)
Repayment of loan to optionees in connection with exercise of options	—	—	193	—	—	193	—	193
Balance as of September 30, 2018	133,275,521	13	21,557	(7,013)	29,717	44,274	65,491	109,765
Net income (loss) for the year	—	—	—	—	21,254	21,254	(5,060)	16,194
Foreign currency translation adjustments	—	—	—	(6,719)	—	(6,719)	(2,135)	(8,854)
Share-based compensation expenses (Note 26)	935,224	—	2,005	—	—	2,005	—	2,005
Dividends paid by a subsidiary to its noncontrolling interests shareholders	—	—	—	—	—	—	(291)	(291)
Capital contribution from noncontrolling interests	—	—	—	—	—	—	29	29
Unrealized gain on available-for-sale investments, net of tax effect of US\$219	—	—	—	1,375	—	1,375	—	1,375
Repayment of loan to optionees in connection with exercise of options	—	—	135	—	—	135	—	135
Purchase of noncontrolling interests of a consolidated subsidiary	—	—	810	—	—	810	(7,119)	(6,309)
Modified retrospective adjustment of upon adoption of								
Topic 606 (Note 2)	—	—	—	—	9,697	9,697	—	9,697
Balance as of September 30, 2019	134,210,745	13	24,507	(12,357)	60,668	72,831	50,915	123,746
Net income (loss) for the year	—	—	—	—	10,430	10,430	(2,293)	8,137
Foreign currency translation adjustments	—	—	—	11,207	—	11,207	2,526	13,733
Share-based compensation expenses (Note 26)	1,109,688	1	2,617	—	—	2,618	—	2,618
Dividends to shareholders (Note 27)	—	—	—	—	(19,621)	(19,621)	—	(19,621)
Dividends paid by a subsidiary to its noncontrolling interests shareholders	—	—	—	—	—	—	(2,546)	(2,546)
Capital contribution from noncontrolling interests	—	—	—	—	—	—	367	367
Unrealized gain on available-for-sale investments, net of tax effect of US\$79	—	—	—	318	—	318	—	318
Repayment of loan to optionees in connection with exercise of options	—	—	192	—	—	192	—	192
Balance as of September 30, 2020	135,320,433	14	27,316	(832)	51,477	77,975	48,969	126,944

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

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	12,303	16,194	8,137
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation	2,306	2,005	2,618
Depreciation of property, plant and equipment	3,069	3,958	4,649
Amortization of other intangible assets	3,230	8,765	8,566
Non-cash operating lease cost	—	—	4,716
Provision of inventories	15	1,090	1,069
Change in allowance for doubtful accounts	199	(8)	499
Impairment loss on goodwill	—	1,517	—
Losses on disposition of property, plant and equipment	21	344	354
Loss from equity method investments	172	1,484	555
Impairment loss from long-term investments	2,835	6,920	910
Gain from disposal of an investment	—	(318)	—
Change in fair value in connection with a business combination	(84)	(695)	—
Gain from deconsolidation of a subsidiary	—	(6,869)	—
Changes in operating assets and liabilities:			
Accounts receivable	(1,921)	(631)	1,012
Inventories	(1,769)	(2,712)	(1,467)
Prepayments and other current assets	(2,710)	(7,568)	(6,926)
Amounts due from related parties	7	(535)	(2,453)
Deferred costs	(458)	(359)	(151)
Operating lease right-of-use assets	—	—	3,389
Deferred tax assets	(3,050)	1,154	(1,571)
Other non-current assets	(1,328)	(1,306)	3,038
Accrued expenses and other liabilities	357	(179)	15,435
Amounts due to related parties	—	623	165
Income tax payable	582	1,112	6,456
Deferred revenue	23,243	68,368	5,210
Operating lease liabilities	—	—	(7,384)
Refundable fees	13,444	(10,836)	1,264
Deferred tax liabilities	(369)	277	(7,129)
Net cash provided by operating activities	50,094	81,795	40,961
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of businesses, net of cash acquired of US\$565, nil and nil as of September 30, 2018, 2019 and 2020, respectively	(15,488)	—	—
Disposal of a consolidated subsidiary, net of cash disposed of nil, US\$4,787 and nil as of September 30, 2018, 2019 and 2020, respectively	—	(2,769)	—
Purchase of term deposits	—	—	(25,158)
Maturity of term deposits	—	—	12,133
Purchase of short-term investments	(21,905)	(20,660)	(5,500)
Maturity of short-term investments	28,211	14,714	8,350
Acquisition of property, plant and equipment	(15,462)	(9,601)	(4,417)
Purchase of additional equity interests of a consolidated subsidiary	—	(5,571)	—
Settlement of contingent consideration related to previously acquired equity interests of a consolidated subsidiary	—	(1,048)	—
Proceeds from disposition of property, plant and equipment	49	—	—
Proceeds from disposal of equity securities without readily determinable fair value	—	3,589	762

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

**CONSOLIDATED STATEMENTS OF CASH FLOWS - continued**  
(In thousands)

	Years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
<b>CASH FLOWS FROM INVESTING ACTIVITIES - continued</b>			
Acquisition of other intangible assets	(736)	(663)	(290)
Payment of deposit for the acquisition of non-current assets	(8,359)	(2,744)	(488)
Payment of deposit for the purchase of investments	—	(218)	—
Purchase of equity method investments	(2,600)	(87)	(114)
Purchase of equity securities without readily determinable fair value	(18,136)	—	(1,427)
Purchase of available-for-sale investments	(1,071)	—	—
Net cash used in investing activities	<u>(55,497)</u>	<u>(25,058)</u>	<u>(16,149)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contribution from noncontrolling interests	89	29	367
Loan repayments	(22,190)	(24,092)	(38,646)
Bank borrowings	35,300	—	20,000
Repayment of short-term loan to a related party	(1,677)	—	—
Proceeds from share options exercised by employees	1,489	—	—
Loan to optionees in connection with exercise of options	(1,557)	—	—
Repayment of loan to optionees in connection with exercise of options	193	135	192
Dividends paid to shareholders	(14,949)	—	(19,621)
Dividends paid by a subsidiary to its noncontrolling interests shareholders	—	(291)	(2,546)
Net cash used in financing activities	<u>(3,302)</u>	<u>(24,219)</u>	<u>(40,254)</u>
Exchange rate effect on cash and cash equivalents and restricted cash	<u>(4,114)</u>	<u>(8,745)</u>	<u>10,224</u>
Net (decrease) increase in cash and cash equivalents and restricted cash	<u>(12,819)</u>	<u>23,773</u>	<u>(5,218)</u>
Cash and cash equivalents and restricted cash at beginning of the year	<u>95,381</u>	<u>82,562</u>	<u>106,335</u>
Cash and cash equivalents and restricted cash at end of the year	<u><u>82,562</u></u>	<u><u>106,335</u></u>	<u><u>101,117</u></u>
Supplemental schedule of cash flow information:			
Income tax paid	(5,942)	(5,898)	(6,922)
Supplemental schedule of non-cash activities:			
Acquisition of property, plant and equipment and other intangible assets through utilization of deposits	474	6,238	2,909
Income tax reversal	<u>299</u>	<u>79</u>	<u>627</u>

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**1. ORGANIZATION AND BASIS OF PRESENTATION**

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

As of September 30, 2020, details of the Company’s major subsidiaries, its VIEs and VIEs’ major subsidiaries were as follows:

Company name	Later of date of incorporation or acquisition	Place of incorporation (or establishment) /operation	Percentage of legal ownership by the Company	Principal activities
<b>Major Subsidiaries:</b>				
China Distance Education Limited (“CDEL Hong Kong”)	March 13, 2003	Hong Kong	100%	Investment holding and provision of education services
Beijing Champion Distance Education Technology Co., Ltd. (“Champion Technology”)	January 5, 2004	PRC	100%	Provision of technical support and consultancy services and course production
Beijing Champion Education Technology Co., Ltd. (“Champion Education Technology”)	April 23, 2007	PRC	100%	Software licensing and course production
Beijing Zhengbao Yucai Education Technology Co., Ltd. (“Zhengbao Yucai”)	February 19, 2009	PRC	35.76% (Note 23)	Provision of start-up training services
Xiamen NetinNet Software Co., Ltd (“Xiamen NetinNet”)	May 3, 2016	PRC	28.608%*	Provision of learning simulation software production
<b>Variable interest entities:</b>				
Beijing Champion Hi-Tech Co., Ltd. (“Beijing Champion”)	July 12, 2000	PRC	Nil	Provision of online education services and sales of books and reference materials
Beijing Champion Healthcare Education Technology Co., Ltd. (“Champion Healthcare Education”)	May 13, 2015	PRC	Nil	Inactive
<b>Major subsidiaries of variable interest entities:</b>				
Beijing Caikaowang Company Ltd. (“Caikaowang”)	November 28, 2007	PRC	Nil	Provision of online education services
Beijing Champion Wangge Education Technology Co., Ltd. (“Champion Wangge”)	June 24, 2008	PRC	Nil	Provision of online education services
Beijing Champion Culture Development Co., Ltd. (“Champion Culture”)	June 03, 2015	PRC	Nil	Provision of sales of books and reference materials
Jiangsu Zhengbao Asset Financial Advisory Co., Ltd. (“Jiangsu Asset”)	November 1, 2017	PRC	Nil	Provision of financial and tax advisory and accounting service
Beijing Ruida Chengtai Education Technology Co., Ltd. (“Beijing Ruida”)	July 11, 2018	PRC	Nil	Provision of legal profession services
Beijing Youbang Culture and Art Training School (“Beijing Youbang”)	July 11, 2018	PRC	Nil	Provision of legal profession services
Jiangsu Champion Healthcare Education Technology Co., Ltd. (“Jiangsu Healthcare”)	January 29, 2019	PRC	Nil	Provision of online education services
Jiangsu Champion E&C Education Technology Co., Ltd. (“Jiangsu E&C”)	January 29, 2019	PRC	Nil	Provision of online education services
Jiangsu Champion Self-taught Education Co., Ltd. (“Jiangsu Self-taught”)	January 29, 2019	PRC	Nil	Provision of online education services
Beijing Champion H&E Technology Co., Ltd. (“Beijing H&E”)	March 21, 2019	PRC	Nil	Provision of online education services
Beijing Champion E&C Education Technology Co., Ltd. (“Beijing E&C”)	March 05, 2019	PRC	Nil	Provision of online education services
Beijing Champion Self-taught Education Co., Ltd. (“Beijing Self-taught”)	March 07, 2019	PRC	Nil	Provision of online education services

\*Note: The entity is the subsidiary of Zhengbao Yucai.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION - continued**

*The VIE arrangements*

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION - continued**

*The VIE arrangements - continued*

- Agreements that transfer economic benefits to Champion Technology

*Exclusive technical support and consultancy services agreement*

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

*Equity pledge agreement*

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION - continued**

*The VIE arrangements* - continued

- Agreements that provide the Company effective control over Beijing Champion

*Exclusive purchase right contract*

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

*Power of attorney*

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION - continued**

*The VIE arrangements* - continued

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

*Power of attorney* - continued

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

In December 2015, the Group incorporated Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd. (“Zhongxi Healthcare Education”) in the PRC. On December 28, 2015, a series of contractual arrangements were signed among Zhongxi Healthcare Education, Champion Healthcare Education, a private company domiciled in the PRC owned by Mr. Zhengdong Zhu, the chairman and the Chief Executive Officer (the “CEO”) of the Group, and his spouse Ms. Baohong Yin, and the shareholders of Champion Healthcare Education. These contractual arrangements include an exclusive business cooperation agreement, an equity pledge agreement, a letter of undertaking, an exclusive option agreement, and the powers of attorney.

- Agreements that transfer economic benefits to Zhongxi Healthcare Education

*Exclusive business cooperation agreement*

Pursuant to the exclusive business cooperation agreement between Zhongxi Healthcare Education and Champion Healthcare Education, Zhongxi Healthcare Education has the exclusive right to provide to Champion Healthcare Education with marketing, technical and management consulting services. Champion Healthcare Education is entitled to charge Zhongxi Healthcare Education a service fee equal to its profit before such service fee and tax. This agreement will remain effective until Zhongxi Healthcare Education ceases its operations or terminates this agreement in writing.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION - continued**

*The VIE arrangements - continued*

- Agreements that transfer economic benefits to Zhongxi Healthcare Education - continued

*Equity pledge agreement*

Under this agreement, for the purpose to secure the payment obligations of Champion Healthcare Education under the exclusive business cooperation agreement described above, each of Champion Healthcare Education's shareholders, Mr. Zhengdong Zhu and Ms. Baohong Yin, pledged to Zhongxi Healthcare Education his or her entire equity ownership interests in Champion Healthcare Education. The equity pledges under the Equity Pledge Agreements entered into by Champion Technology and Mr. Zhengdong Zhu and Ms. Baohong Yin, respectively, and the equity pledges under the Equity Pledge Agreement entered into by Zhongxi Healthcare Education and Mr. Zhengdong Zhu and Ms. Baohong Yin have been registered with the relevant local branch of the State Administration for Industry and Commerce, or SAIC. Upon the occurrence of certain events of default specified in this agreement, the pledgee may exercise its rights and foreclose on the pledged equity interest. Under this agreement, the pledgors may not transfer the pledged equity interests without the pledgee's prior written consent. This agreement will also be binding upon successors of the pledgors and transferees of the pledged equity interests. This agreement will remain effective until the discharge of Champion Healthcare Education's contractual obligations under the exclusive business cooperation agreement as described above.

*Letter of Undertaking from Champion Healthcare Education's Shareholders to Zhongxi Healthcare Education*

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION - continued**

*The VIE arrangements - continued*

- Agreements that provide the Company effective control over Zhongxi Healthcare Education

*Exclusive Option Agreement*

Pursuant to the exclusive option agreement entered into among Zhongxi Healthcare Education, Champion Healthcare Education and its shareholders, Zhongxi Healthcare Education or any third-party designated by it has the right to acquire, in whole or in part, the respective equity interests in Champion Healthcare Education of its shareholders when permitted by applicable PRC laws and regulations. This agreement will remain effective until the entire equity interests in Champion Healthcare Education are transferred to Zhongxi Healthcare Education.

*Powers of Attorney*

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

These contractual arrangements allow the Group to effectively control Champion Healthcare Education and to derive substantially all of the economic benefits from them. Accordingly, the Group treats Champion Healthcare Education as a VIE and because the Group is the primary beneficiary of Champion Healthcare Education, the Group has consolidated the financial results of Champion Healthcare Education. To comply with those foreign ownership restrictions, the Company plans to operate substantially all of its healthcare education services through its VIE, Zhongxi Healthcare Education in the PRC. The VIE plans to hold leases and other assets necessary to provide healthcare education services and generate all of the Company's revenues related to healthcare education, but have not yet actively engaged in business as of September 30, 2020.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION - continued**

*The VIE arrangements* - continued

• Risks in relation to the VIE structure

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

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

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

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**1. ORGANIZATION AND BASIS OF PRESENTATION - continued**

*The VIE arrangements* - continued

- Risks in relation to the VIE structure - continued

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

The Group's online education business has been directly operated by (and as a result substantially all of the Group's revenues have been generated from) the VIEs and their subsidiaries. For the years ended September 30, 2019 and 2020, the VIEs and their subsidiaries accounted for an aggregate of 57% and 68%, respectively, of the Group's consolidated total assets, and 75% and 88%, respectively, of the Group's consolidated total liabilities. The assets not associated with the VIEs and their subsidiaries in these years primarily consisted of cash held by the Company.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**1. ORGANIZATION AND BASIS OF PRESENTATION** - continued*The VIE arrangements* - continued

The following financial information of the Company's VIEs and the VIEs' subsidiaries as of September 30, 2019 and 2020 and for each of the three years ended September 30, 2020 was included in the accompanying consolidated financial statements after elimination of intercompany transactions and balances within the VIEs and the VIEs' subsidiaries:

	As of September 30,	
	2019	2020
	US\$	US\$
Cash and cash equivalents	39,919	67,257
Prepayment and other current assets	24,533	28,334
<b>Total current assets</b>	<b>192,471</b>	<b>113,040</b>
Total assets	314,943	271,168
Deferred revenue – current	93,364	104,929
Total current liabilities	137,478	174,978
Deferred revenue – non-current	33,564	33,928
Total non-current liabilities	36,004	64,007
<b>Total liabilities</b>	<b>173,483</b>	<b>238,985</b>

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Net revenues	151,146	183,893	197,110
Net income	29,532	36,393	33,439
Net cash provided by operating activities	44,054	41,568	29,294
Net cash used in investing activities	(44,414)	(20,517)	(3,127)
Net cash used in financing activities	(5,706)	—	(1,713)
Effects of exchange rate changes	(555)	(1,609)	2,884

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of presentation and use of estimates***

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

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions reflected in the Group’s financial statements include, but are not limited to, revenue recognition, consolidation of the VIEs, income tax, impairment of goodwill and long-term assets, impairment of long-term investments, change in fair value of contingent consideration, change in fair value of a long-term investment, share-based compensation expenses and purchase price allocation for business acquisition. Actual results could materially differ from those estimates.

***Principles of consolidation***

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIEs and the VIEs’ subsidiaries. All profits, transactions and balances among the Company, its subsidiaries, its VIEs and the VIEs’ subsidiaries have been eliminated upon consolidation.

***Foreign currency translation and transactions***

The Company’s functional currencies are the United States dollars (“US\$”). The Company’s PRC subsidiaries, the VIEs and the VIEs’ subsidiaries determine their functional currencies to be the Chinese Renminbi (“RMB”). The Company uses the US\$ as its reporting currency and uses the monthly average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position of its PRC subsidiaries, the VIEs, and the VIEs’ subsidiaries, respectively. Translation differences are recorded in accumulated other comprehensive loss, a component of the consolidated statements of changes in equity.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

***Business Combinations***

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any noncontrolling interests of the acquiree at the acquisition date, if any, are measured at their fair values as of the acquisition date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any noncontrolling interest of the acquiree and the fair value of previously held equity interest in the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition. Acquisition-related expenses and restructuring costs are expensed as incurred.

Where the consideration in an acquisition includes contingent consideration and the payment of which depends on the achievement of certain specified conditions post-acquisition, the contingent consideration is recognized and measured at its fair value at the acquisition date and is recorded as a liability. It is subsequently carried at fair value with changes in fair value reflected in earnings.

In a business combination achieved in stages, the previously held equity interest is remeasured in the acquiree immediately before obtaining control at its acquisition-date fair value and the remeasurement gain or loss, if any, is recognized in the consolidated statements of operations.

***Cash and cash equivalents***

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

***Restricted cash***

Restricted cash represents deposits not readily available to the Company. Restricted cash as of September 30, 2019 and 2020 represented cash pledged as security for bank borrowings. Refer to Note 15.

***Term deposits***

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

***Short-term investments***

Short-term investments consist of held-to-maturity investments with a maturity of less than one year. The Group's short-term held-to-maturity investments are classified as short-term investments on the consolidated balance sheets based on their contractual maturity dates which are less than one year and are stated at their amortized costs. In addition, short-term investments also comprise of financial products with early redemption option and no specified maturity dates, which are classified as available-for-sale investments.

The Group reviews its short-term investments for other-than-temporary impairment ("OTTI") based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating the potential impairment of its short-term investments. If the carrying amount of an investment exceeds the investment's fair value, the Group considers, among other factors, general market conditions, expected future performance of the investees, the duration and the extent to which the fair value of the investment is less than the carrying amount, and the Group's intent and ability to hold the investments. OTTI is recognized as a loss in the consolidation statements of operations.

***Inventories***

Inventories, consisting of paper and professional examination reference books, are stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs and disposal. Adjustments are recorded to write down the cost of inventory to the estimated net realizable value for obsolete and slow-moving goods.

***Fair value***

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

***Level 1***

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Fair value - continued*

*Level 2*

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

*Level 3*

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

***Financial instruments***

The Group's financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, amounts due from related parties, short-term and long-term investments, bank borrowings, long-term bank borrowing, amounts due to related parties and accounts payable. Available-for-sale investments and cash and cash equivalents are carried at fair value. The carrying amounts of restricted cash, accounts receivable, amounts due from related parties, short-term held-to-maturity investments, bank borrowings, amounts due to related parties and accounts payable approximate their fair values due to the short-term maturities of these instruments. The Group carries equity securities without readily determinable fair values under long-term investments at cost, less impairment, plus or minus observable price changes in a similar transaction. Long-term bank borrowing is carried at amortized cost. The fair value is based on the contractual cash flows discounted using rates currently offered for borrowing with similar terms. Refer to Note 15 for further details.

***Allowance for doubtful accounts***

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

***Property, plant and equipment, net***

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

Category	Estimated useful life	Estimated residual value
Buildings	35~50 years	5-10%
Electronic and office equipment	5 years	5-10%
Motor vehicles	5 years	5-10%
Leasehold improvement and building improvement	Shorter of lease term or 5 years	—

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

**Construction in progress**

The Group constructs certain of its property and equipment. Construction in progress represents the costs incurred in connection with the construction of property and equipment. Costs classified as construction in progress include all costs of obtaining the asset and bringing it to the location and in the condition necessary for its intended use. Depreciation is recorded at the time the assets are ready for intended use.

***Goodwill, net***

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

*Goodwill, net* - continued

For the years ended September 30, 2019 and 2020, the Group performed its annual impairment test using a two-step approach. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test measures the amount of the impairment loss, if any, by comparing the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess. The implied fair value of goodwill is calculated in the same manner that goodwill is calculated in a business combination, whereby the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, with the excess purchase price over the amounts assigned to assets and liabilities representing the implied fair value of goodwill. The Group recorded nil, US\$1,517, and nil impairment loss related to goodwill for the years ended September 30, 2018, 2019 and 2020, respectively.

*Other intangible assets, net*

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

<u>Category</u>	<u>Estimated useful life</u>
Computer software	3~5 years
Trademarks and domain names	3~11 years
Courseware	1~5 years
Business contracts	3~5.5 years
Copyrights	5~7 years
Others	3.5~8 years

*Impairment of long-lived assets*

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group recognizes an impairment loss based on the fair value of the assets. The Group did not record any impairment loss related to long-lived assets for the years ended September 30, 2018, 2019 and 2020.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Long-term investments*

The Group's long-term investments consist of equity securities without readily determinable fair value, equity method investments, and available-for-sale investments.

(a) Equity securities without readily determinable fair values

On October 1, 2018, the Group adopted Accounting Standards Update ("ASU") No. 2016-01 Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities and 2018-03 Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Group adopted this ASU using a modified retrospective method. Prior to the fiscal year 2019, for investee companies over which the Group does not have significant influence or a controlling interest, equity securities of privately held companies were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment.

With the adoption of ASU 2016-01, the Group elected a practicability exception to fair value measurement for the equity securities without readily determinable fair values, under which these investments are measured at cost, less impairment, plus or minus observable price changes of an identical or similar investment of the same issuer with fair value change recorded in the consolidated statements of operations.

The Group reviews its equity securities without readily determinable fair value for impairment at each reporting period. If a qualitative assessment indicates that the investment is impaired, the Group estimates the investment's fair value in accordance with the principles of ASU No. 2011-4: Fair Value Measurement (ASC 820). If the fair value is less than the investment's carrying value, the Group recognizes an impairment loss equal to the difference between the carrying value and fair value in the consolidated statements of operations. The Group recorded nil, US\$546 and nil of impairment losses on its equity securities without readily determinable fair value during the years ended September 30, 2018, 2019 and 2020, respectively.

(b) Equity method investments

For an investee company over which the Group has the ability to exercise significant influence, but does not have a controlling interest, the Group accounted for those using the equity method. Significant influence is generally considered to exist when the Group has an ownership interest in the voting stock of the investee between 20% and 50%. Other factors, such as representation on the investee's board of directors, voting rights and the impact of commercial arrangements, are also considered in determining whether the equity method of accounting is appropriate.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Long-term investments* - continued

(b) Equity method investments - continued

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than temporary. The Group estimates the fair value of the investee company based on comparable quoted price for similar investment in active market, if applicable, or discounted cash flow approach which requires significant judgments, including the estimation of future cash flows, which is dependent on internal forecasts, the estimation of long term growth rate of a company's business, and the determination of the weighted average cost of capital. The Group recorded US\$343, US\$6,374, and US\$910 impairment loss on its equity method investments during the years ended September 30, 2018, 2019 and 2020, respectively.

(c) Available-for-sale securities investments

For investments in investees' stocks which are determined to be debt securities, the Group accounts for them as long-term available-for-sale investments when they are not classified as either trading or held-to-maturity investments. Available-for-sale investments are carried at their fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive loss.

The Group reviews its investments for OTTI based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the carrying amount of an investment exceeds the investment's fair value, the Group considers, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, the Group's intent and ability to hold the investment, and the financial condition and near term prospects of the investees. The Group recorded US\$2,492, nil, and nil impairment loss on its available-for-sale investments during the years ended September 30, 2018, 2019 and 2020, respectively.

***Revenue recognition***

On October 1, 2018, the Group adopted ASC Topic 606 Revenue from Contracts with Customers ("Topic 606"), applying the modified retrospective method to all contracts that were not completed as of October 1, 2018. Results for the years ended September 30, 2019 and 2020 are presented under Topic 606, while revenues for the year ended September 30, 2018 are not adjusted and continue to be reported under ASC Topic 605, Revenue Recognition ("Topic 605").

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

## 2. SIGNIFICANT ACCOUNTING POLICIES - continued

*Revenue recognition* - continued

Revenues are recognized when control of promised goods or services is transferred to the Group's customers in an amount of consideration to which the Group expects to be entitled to in exchange for those goods or services. The Group follows the five steps approach for revenue recognition under Topic 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the Group satisfies a performance obligation.

The Group generates substantially all of its revenues in the PRC. The following table presents the Group's revenues disaggregated by revenue sources. The Group's revenues are reported net of value added tax and surcharges.

Disaggregation of net revenues for the year ended September 30, 2020

	Over-time US\$	A point-in-time US\$	Total US\$
Online education services	158,548	790	159,338
Books and reference materials	—	22,061	22,061
Other professional education services	7,352	9,084	16,436
Professional education services	165,900	31,935	197,835
Sales of learning simulation software	—	9,516	9,516
Business start-up training services	—	2,207	2,207
<b>Total</b>	<b>165,900</b>	<b>43,658</b>	<b>209,558</b>
	Refundable course model US\$	Non-refundable course model US\$	Total US\$
Online education services	37,357	121,981	159,338
Books and reference materials	—	22,061	22,061
Other professional education services	—	16,436	16,436
Professional education services	37,357	160,478	197,835
Sales of learning simulation software	—	9,516	9,516
Business start-up training services	—	2,207	2,207
<b>Total</b>	<b>37,357</b>	<b>172,201</b>	<b>209,558</b>

Disaggregation of net revenues for the year ended September 30, 2019

	Over-time US\$	A point-in-time US\$	Total US\$
Online education services	144,221	1,696	145,917
Books and reference materials	—	27,372	27,372
Other professional education services	14,079	8,679	22,758
Professional education services	158,300	37,747	196,047
Sales of learning simulation software	—	12,979	12,979
Business start-up training services	—	2,796	2,796
<b>Total</b>	<b>158,300</b>	<b>53,552</b>	<b>211,822</b>
	Refundable course model US\$	Non-refundable course model US\$	Total US\$
Online education services	22,465	123,452	145,917
Books and reference materials	—	27,372	27,372
Other professional education services	—	22,758	22,758
Professional education services	22,465	173,582	196,047
Sales of learning simulation software	—	12,979	12,979
Business start-up training services	—	2,796	2,796
<b>Total</b>	<b>22,465</b>	<b>189,357</b>	<b>211,822</b>

The total of other professional education services, sales of learning simulation software, and business start-up training services are presented as "others" on the consolidated statements of operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Revenue recognition* - continued

The Group capitalizes sales commission paid to sales personnel and student recruitment agencies as cost of obtaining a contract when those costs are incremental to obtain a contract and if the Group expects to recover those costs. Contract costs are amortized in the same manner as the revenues recognized.

As of September 30, 2020, the balances of capitalized cost of obtaining contracts with customers amounted to US\$8,440 and US\$3,043 were recorded in “prepayment and other current assets” and “other non-current assets”, respectively. As of September 30, 2019, the respective balances amounted to US\$4,974 and US\$3,251, respectively. The Group recognized amortization of contract cost amounting to US\$6,166 and US\$10,974 in “selling expenses” in its consolidated statements of operations during the years ended September 30, 2019 and 2020, respectively. The Group did not record any impairment of contract cost for the years ended September 30, 2019 and 2020.

The Group’s contract liabilities mainly consist of prepayments from students (deferred revenue), with a balance of US\$80,560 and US\$127,766 as of October 1, 2018 and 2019, respectively, of which US\$62,363 and US\$75,378 were recognized in revenues for the years ended September 30, 2019 and 2020, respectively. The balances of US\$127,766 and US\$139,881 as of September 30, 2019 and 2020 are expected to be recognized as follows:

The expected balances of deferred revenue as of September 30, 2020:

	US\$
Years ending September 30,	
2021	105,953
2022	27,003
2023	6,379
2024	470
2025	76
	<u>139,881</u>

The expected balances of deferred revenue as of September 30, 2019:

	US\$
Years ending September 30,	
2020	94,202
2021	24,999
2022	7,288
2023	1,159
2024	118
	<u>127,766</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Revenue recognition* - continued

Refund liabilities mainly related to the estimated refunds that are expected to be paid to eligible students and recorded as refundable fees on the consolidated balance sheets. Refund liability estimates are based on historical refund ratio (i.e. passage rate) on a portfolio basis using the expected value method. As of September 30, 2019 and 2020, refundable fees amounted to US\$2,875 and US\$4,331, respectively.

*Online education services*

The primary sources of the Group's revenues and recognition policies are as follows:

The online education services provided by the Group to its customers are integrated services, including audio-video course content, mock examinations and online chat rooms during the subscription period. Audio-video course content, mock examinations and online chat rooms are highly interdependent and interrelated in the context of the contract with the online education services. Therefore, the Group determined that the online education services represent a single performance obligation.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Revenue recognition* - continued

*Online education services* - continued

The online courses using the non-refundable course model are mainly comprised of regular classes and premium classes. In addition, the non-refundable course model also includes insured elite classes, which are refundable to the students through a third party insurance company. The revenues for the regular classes are recognized on a straight-line basis over the subscription period from the month in which the customers enroll in the courses to the month in which the subscribed courses terminate. For premium classes, if participants fail to pass the course examination and certain pre-agreed conditions are met, the participants can retake the same premium course for free for the following year or years. For the insured elite classes, if the course participants fails to pass the course examination and certain pre-agreed conditions are met, the participants can retake the same premium course for free for the following year or years, and enjoy the refund privilege covered by an independent insurance company. Under Topic 605, the Group recognized the discount offered for the retake course proportionally as a deduction to revenues recognized for each of the class that the participants take. Upon the adoption of Topic 606, the Group recognizes the revenues related to the premium and insured elite classes over the expected service period based on the estimated historical passage rates on a portfolio basis.

The online courses using the refundable course model are mainly comprised of uninsured elite classes whereas the Group is obligated to refund the tuition fee or provide the students with a right to retake the course if the participants complete the courses and fail the professional exams and their scores are within a range provided for in the agreement. The participants must notify the Group within a pre-agreed period after the professional examinations scores are released in order to be eligible for the refund or the right to retake the course. Under Topic 605, the proceeds from the refundable course model were initially recorded as refundable fees in the Company's consolidated balance sheet and were recognized upon the expiration of the participants' right to receive a refund or ratably over the retake course period when the participants decide to retake the course before the expiration of such right. Upon the adoption of Topic 606, the Group estimates the variable consideration to be earned based on historical refund ratio on a portfolio basis using the expected value method and records a refund liability based on estimated refunds to be paid to eligible students. The Group further recognizes revenues over the expected service period based on the estimated historical passage rates on a portfolio basis.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Revenue recognition* - continued

*Online education services* - continued

Most of the course participants pay course fees via online payment systems provided by third parties including internet debit or credit card payment systems and other third-party payment systems. Some participants may choose to enroll for online courses through the use of prepaid study cards which are purchased from distributors. The Group sells prepaid study cards at a discount to the face value of the cards to its regional distributors. Revenues are recorded using the after-discount-selling-price of the cards and recognized over the period the online courses are available to the customers, which generally is from the month in which the customers enroll in the courses to the month in which the subscribed courses terminate. Based on the history of usage of prepaid study cards, the Group concluded that any breakage related to prepaid study cards that are not activated or that have not been used to enroll in courses is insignificant.

The Group may, at times, offer volume discounts to its regional distributors for purchases over a specified amount of prepaid study cards during a specified period of time, generally, one year. Under Topic 605, the Group deferred the portion of revenues of the prepaid study card based on the maximum potential amount of discount provided to the distributors. Revenues were recognized during the remaining period the online courses were available to the users who enroll using the prepaid study cards or were recognized immediately if the related online course had been completed or the prepaid study cards expired. Upon the adoption of Topic 606, volume discounts are considered a form of variable consideration. Accordingly, volume discounts are estimated and recognized based on historical experience and adjusted based on actual purchase volumes at each reset period.

The Group provides student enrollment services and online platform to government agencies which use the Group's online platform to conduct continuing education services. The Group earns service fees as a percentage of total tuition fees based on the agreements entered into with the government agencies. Each contract of these services is accounted for as single performance obligation which is satisfied ratably over the service period. Service fees are initially recorded as deferred revenue and are recognized as revenues on a straight-line basis over the subscription period based on the terms of the agreements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Revenue recognition* - continued

*Online education services* - continued

The online education services provided by Beijing Champion and its subsidiaries are subject to approximately 6% value added tax and related surcharges. The Group records revenues net of these taxes in the consolidated statements of operations. Such value added tax related surcharges for the years ended September 30, 2018, 2019 and 2020 were US\$1,075, US\$1,172 and US\$436, respectively.

*Books and reference materials*

The Group sells books and reference materials to distributors and end users. Revenues relating to such sales are recorded when control of the promised goods is transferred to the customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for the goods. Inventory costs of products delivered to distributors for which revenues have been deferred are presented as “deferred costs” on the consolidated balance sheets.

The Group also sells books and reference materials together with study cards which allow the customers to take a certain number of online courses for no additional charge or by paying at a discount, and the customers can also get certain number of electronic books for free. The Group determined that books and online course services represent two separate performance obligations. The Group allocates the proceeds to each performance obligation based on their relative selling price. The relative selling price are based on observable price sold on a standalone basis if available. If not, the Group estimates the relative selling price based on internal pricing models.

*Other revenues*

Other revenues include sales of learning simulation software, sales of offline professional training, and others.

Revenues from sales of learning simulation software, which are self-developed learning simulation packaged software, are recognized when the control of the software is transferred to the customers in an amount of consideration to which the Company expects to be entitled to in exchange for the software. The Company has no significant remaining obligation with respect to the software, except for warranty related obligations, of which the related costs are estimated upon the acceptance of the customers.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Revenue recognition* - continued

*Other revenues* - continued

Revenues from offline professional training are recognized proportionately when the training courses are delivered. Each contract of these services is accounted for as a single performance obligation which is satisfied ratably over the service period. For offline training sponsored by government authorities related to business start-up training services, the tuition fees of the training participants are subsidized by the government. Qualified enrollments and the fees to be earned cannot be determined until the confirmation from government authorities regarding the number of students and fees is received by the Company, which is after the completion of services. Therefore, revenues from such services are recognized upon the receipt of confirmations from government authorities, when all the other revenues recognition criteria have been met. Revenues from offline training sponsored by government authorities were insignificant during the years ended September 30, 2019 and 2020.

Revenues from other services, including accounting and consulting services, courseware production services, and platform production services, are recognized when the services are delivered.

*Value added taxes ("VAT")*

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

Champion Technology was a VAT general taxpayer. Champion Education Technology was a VAT small-scale taxpayer but was treated as a general taxpayer since February 1, 2014. Champion Wangge was a VAT small-scale taxpayer but was treated as a general taxpayer since January 1, 2015. The applicable VAT rates are 6% and 3% for the entities that are general taxpayer and small-scale taxpayer, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Value added taxes* (“VAT”) - continued

Since May 2018, in accordance with Cai Shui [2018] No.32, the VAT rate decreased to 16% of the gross sales for general VAT payer. Therefore, for general VAT payer, VAT on sales is calculated at 16% on revenues from product sales and paid after deducting input VAT on purchases since May 1, 2018.

Since April 2019, in accordance with Cai Shui [2019] No.39, the VAT rate decreased to 13% of the gross sales for general VAT payer. Therefore, for general VAT payer, VAT on sales is calculated at 13% on revenue from product sales and paid after deducting input VAT on purchases since April 1, 2019. The revenues earned from the sales of software of the Group are subject to 13% VAT rate.

Since January 2020, in accordance with Cai Shui [2020] No.8 and Cai Shui [2020] No.28, due to the Novel Coronavirus Pandemic, the VAT from providing daily life services, including the education services was temporarily exempted for the calendar year 2020.

Pursuant to a circular jointly released by the Ministry of Finance and State Administration of Taxation on December 25, 2013, the Group is subject to a VAT exemption for the proceeds received from customers for sales related to books and reference materials until December 31, 2017, which is further extended to December 31, 2020. As a result, the Group registered a tax exemption application at the state tax bureau in February 2014 and started to enjoy such tax exemption for the relevant sales since March 2014. Prior to the filing of tax exemption application in February 2014, the Group was subject to VAT generally at a rate of 13% on the proceeds received for the sales of books and reference materials.

*Cost of sales*

Cost of services and others are mainly composed of salaries and related expenses for tutors, course and content development, website maintenance and information technology technicians and other employees, fees paid to the course lecturers, depreciation and amortization expenses, server management and bandwidth leasing fees paid to third-party providers, rental and related expenses, and other miscellaneous expenses.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Operating lease*

Before October 1, 2019, the Group adopted ASC Topic 840 (“ASC 840”), Leases, and each lease is classified at the inception date as an operating lease, where substantially all the rewards and risk of assets remain with the leasing company. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the shorter of the lease term or estimated economic life.

On October 1, 2019, the Group adopted the new leasing standard (“ASC 842”). The Group determines if an arrangement is a lease or contains a lease at lease inception. Operating leases are required to be recorded in the balance sheet as right-of-use (“ROU”) assets and lease liabilities, initially measured at the present value of the lease payment. The Group has elected the package of practical expedients, which allows the Group not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification of any expired or existing leases as of the adoption date and (3) initial direct cost for any expired or existing leases as of the adoption date. The Group also elected not to separately account for lease and nonlease components. Lastly, the Company has elected to utilize the short-term lease recognition exemption and, for those leases that qualified, the Group did not recognize operating lease ROU assets or operating lease liabilities.

As the rate implicit in the lease is not readily determinable, the Group estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payment. The incremental borrowing rate is estimated in a portfolio approach to approximate the interest rate on a collateralized basis with similar terms and payments in a similar economic environment. Lease term may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. Lease expenses are recorded on a straight-line basis over the lease term.

*Advertising expenditure*

Advertising expenditure is expensed when incurred and is included in “selling expenses” in the consolidated statements of operations. Advertising expenses were US\$14,785, US\$23,668 and US\$28,608 for the years ended September 30, 2018, 2019 and 2020, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

***Shipping and handling costs***

Shipping and handling costs of books and reference materials are classified as a component of “selling expenses” in the consolidated statements of operations. Shipping and handling costs classified as selling expenses were US\$1,852, US\$3,154 and US\$3,168 for the years ended September 30, 2018, 2019 and 2020, respectively.

***Income taxes***

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

***Share-based compensation***

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Net income per share*

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

*Comprehensive income*

Comprehensive income includes net income, unrealized gain on available-for-sale investments and foreign currency translation adjustments, and is reported in the consolidated statements of comprehensive income.

*Significant risks and uncertainties*

*Foreign currency risk*

RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into foreign currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents of the Group included aggregate amounts of US\$65,673 and US\$77,630, which were denominated in RMB, as of September 30, 2019 and 2020, respectively, representing 96.5% and 97.0% of the cash and cash equivalents as of September 30, 2019 and 2020, respectively.

*Concentration of credit risk*

Financial instruments that potentially expose the Group to significant concentration of credit risk primarily consist of cash and cash equivalents, term deposits, restricted cash, short-term investments, accounts receivable and prepayment and other current assets. As of September 30, 2019 and 2020, substantially all of the Group's cash and cash equivalents, restricted cash and short-term investments were deposited in financial institutions located in the PRC and Hong Kong. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances.

There are no revenues from customers which individually represent greater than 10% of the total net revenues for any year of the three years period ended September 30, 2020.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Newly adopted accounting pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In July 2018, ASU 2016-02 was updated with ASU 2018-11, Targeted Improvements to ASC 842, which provides entities with relief from the costs of implementing certain aspects of the new leasing standard. Specifically, under the amendments in ASU 2018-11, (1) entities may elect not to recast the comparative periods presented when transitioning to ASC 842 and (2) lessors may elect not to separate lease and nonlease components when certain conditions are met. Before ASU 2018-11 was issued, transition to the new lease standard required application of the new guidance at the beginning of the earliest comparative period presented in the financial statements.

On October 1, 2019, the Group adopted the ASC 842, using the modified retrospective transition method resulting in the recording of operating lease ROU assets of US\$36,514 and operating lease liabilities of US\$33,167 upon adoption. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. The adoption of the new guidance had no effect on the consolidated statements of operations. Further information is disclosed in Note 2 and Note 21.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Newly adopted accounting pronouncements - continued*

In June 2018, the FASB issued ASU 2018-07: Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the amendments in this ASU, most of the current guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees, including determination of measurement date and accounting for performance conditions and for share-based payments after vesting. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Group adopted this standard on October 1, 2019 with no material impact on the Group's consolidated financial statements.

*Recently issued accounting pronouncements not yet adopted*

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements. This ASU requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset (s) to present the net carrying value at the amount expected to be collected on the financial asset. This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual rights to receive cash. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach).

In April 2019, ASU 2016-13 was updated with ASU 2019-04, which clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments. ASU 2019-04 provides certain alternatives for the measurement of the allowance for credit losses (ACL) on accrued interest receivable (AIR). These measurement alternatives include (1) measuring an ACL on AIR separately, (2) electing to provide separate disclosure of the AIR component of amortized cost as a practical expedient, and (3) making accounting policy elections to simplify certain aspects of the presentation and measurement of such AIR. For entities that have adopted ASU 2016-13, the amendments in ASU 2019-04 related to ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, and interim periods therein. An entity may early adopt ASU 2019-04 in any interim period after its issuance if the entity has adopted ASU 2016-13. The Group is in the process of evaluating the impact of the adoption of these pronouncements on the Group's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04: Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this ASU on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. A public business entity should adopt the amendments in this ASU for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group does not expect the adoption of this guidance will have a significant effect on the Group's consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**2. SIGNIFICANT ACCOUNTING POLICIES - continued**

*Recently issued accounting pronouncements not yet adopted - continued*

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value”. ASU 2018-13 removes and modifies existing disclosure requirements on fair value measurement, namely regarding transfers between levels of the fair value hierarchy and the valuation processes for Level 3 fair value measurements. Additionally, ASU 2018-13 adds further disclosure requirements for Level 3 fair value measurements, specifically changes in unrealized gains and losses and other quantitative information. ASU 2018-13 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Group is in the process of evaluating the impact of the adoption of this pronouncement on the Group’s consolidated financial statements.

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to the Related Party Guidance for Variable Interest Entities. ASU 2018-17 changes how entities evaluate decision-making fees under the variable interest entity guidance. To determine whether decision-making fees represent a variable interest, an entity considers indirect interests held through related parties under common control on a proportional basis, rather than in their entirety. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. All entities are required to apply the amendments in this ASU retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Group is in the process of evaluating the impact of the adoption of this pronouncement on the Group’s consolidated financial statements.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**3. BUSINESS ACQUISITIONS**

Business acquisitions in fiscal year 2018:

*Acquisition of Jiangsu Asset*

On November 1, 2017, the Group acquired 80% equity interest in Jiangsu Asset for a total purchase consideration of RMB40 million (US\$6,059), which was paid in full on October 25, 2017. The acquisition of Jiangsu Asset complements suite of learning solutions for the Group's growing College Cooperation Program, enabling the Group to offer comprehensive real-case-based internship opportunities to college students to master critical accounting skills. This business acquisition was recorded using the acquisition method of accounting. The acquired assets and liabilities were recorded at their fair values at the date of acquisition, resulting in a goodwill balance of US\$3,547. The management performed a purchase price allocation with the assistance from an independent appraiser, as of the date of acquisition:

	US\$	Amortization period
Cash	2,526	
Other current assets	753	
Property, plant and equipment	1,984	25 years
Intangible assets		
Customer relationship	545	8 years
Others	90	1-5 years
Goodwill	3,547	
Other current liabilities	(1,550)	
Deferred tax liabilities	(574)	
Noncontrolling interest	(1,262)	
<b>Total</b>	<b><u>6,059</u></b>	

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**3. BUSINESS ACQUISITIONS - continued**

Business acquisitions in fiscal year 2018: - continued

*Acquisition of Jiangsu Asset - continued*

The following summarized the unaudited pro forma result of operations for the year ended September 30, 2018 with the assumption that the acquisition during the year ended September 30, 2018 occurred as of October 1, 2016. The pro forma results have been prepared for comparative purpose only and do not purport to be indicative of the results of operations which would have resulted had the significant acquisition occurred as of October 1, 2016, nor are they indicative of future operating results.

	Year ended September 30, 2018
	US\$
Pro forma net revenues	2,581
Pro forma net loss attributable to the Company	(561)
Pro forma net income per ordinary share-basic	0.09
Pro forma net income per ordinary share-diluted	0.09

*Acquisition of Beijing Ruida*

In June 2017, the Group invested RMB192 million (US\$28,758) in preferred shares representing 40% interest in Beijing Ruida, a leading provider of exam preparation services in China's Legal Professional Qualification Examination. The investment was initially classified as a cost method investment before the adoption of ASU 2016-01 as the Group determined that the preferred shares were not in-substance common shares due to certain liquidation preferences over ordinary shares. The investment agreement between the Group and Beijing Ruida included a call option and contingent consideration. The call option allowed the Group to further increase its equity interest in Beijing Ruida up to 60% before April 2019 under certain pre-agreed conditions and was initially recorded at fair value at the investment acquisition date and carried at cost less impairment. The contingent consideration payable was recorded at fair value and was subsequently remeasured to fair value at each reporting period thereafter until it was settled by the Group in July 2018, resulting in an additional payment of RMB46.0 million (US\$7,098) to Beijing Ruida.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**3. BUSINESS ACQUISITIONS - continued**

Business acquisitions in fiscal year 2018: - continued

*Acquisition of Beijing Ruida - continued*

On July 10, 2018, the Group exercised a portion of its call option to purchase an additional 11% equity interest in Beijing Ruida for cash consideration of RMB39.6 million (US\$5,931) and contingent consideration payable depending on Beijing Ruida's calendar year 2018 operating results. The contingent consideration was valued on the acquisition date at RMB12.0 million (US\$1,746) by the management with the assistance from an independent appraiser and was subsequently measured at fair value as of September 30, 2018. A gain of US\$676 in relation to the 11% call option's fair value change between the acquisition date and September 30, 2018 was recorded in the Company's consolidated statements of operations. The acquisition of Beijing Ruida further strengthens the Group's legal education vertical by adding a leading Legal Professional Qualification Examination preparation business to its current portfolio of professional education services.

The additional 11% equity interest purchase was accounted for as a step acquisition whereby the Group remeasured the fair value of its previously held equity interests in Beijing Ruida on July 10, 2018, the step acquisition date. The fair value of the equity interest in Beijing Ruida held by the Group immediately before the step acquisition date amounted to RMB225.3 million (US\$32,800), resulting in a loss of US\$590 related to the remeasurement of the 40% previously held equity interest. Such loss was recorded in change in fair value in the Group's consolidated statements of operations. Following the completion of the transaction, the Group held a total of 51% equity interest in Beijing Ruida, and Beijing Ruida became a consolidated subsidiary of the Group.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**3. BUSINESS ACQUISITIONS - continued**

Business acquisitions in fiscal year 2018: - continued

*Acquisition of Beijing Ruida - continued*

The acquisition was recorded using the acquisition method of accounting. Accordingly, the acquired assets and liabilities were recorded at their fair value at the date of acquisition. The acquisition-date fair value of the equity interest held by the Group immediately prior to the acquisition date was measured at fair value using a discounted cash flow method and taking into account certain factors including the management projection of discounted future cash flow and an appropriate discount rate. The management performed a purchase price allocation with the assistance from an independent appraiser as of the date of acquisition:

	US\$	Amortization period
Cash	1,639	
Other current assets	9,578	
Property, plant and equipment	118	5 years
Intangible assets		
Supplier contracts	25,118	5.5 years
Trademark	2,741	3 years
Courseware	4,478	3.5 years
Software	344	5.3 years
Others	210	2.5-5.5 years
Goodwill	48,931	
Other current liabilities	(684)	
Deferred tax liabilities	(8,115)	
Noncontrolling interest	(41,336)	
Total	<u>43,022</u>	

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**3. BUSINESS ACQUISITIONS - continued**

Business acquisitions in fiscal year 2018: - continued

*Acquisition of Beijing Ruida - continued*

The following summarized the unaudited pro forma result of operations for the year ended September 30, 2018 with the assumption that the acquisition during the year ended September 30, 2018 occurred as of October 1, 2016. The pro forma results have been prepared for comparative purpose only and do not purport to be indicative of the results of operations which would have resulted had the significant acquisition occurred as of October 1, 2016, nor are they indicative of future operating results.

	<b>Year ended September 30,</b>
	2018
	US\$
Pro forma net revenues	27,568
Pro forma net income attributable to the Company	14
Pro forma net income per ordinary share-basic	0.09
Pro forma net income per ordinary share-diluted	0.09

On April 26, 2019, Beijing Ruida completed the audit of its consolidated financial statements for the year ended December 31, 2018. As a result, the contingent consideration payable to Beijing Ruida was adjusted from RMB12.0 million (US\$1,746) to RMB7.2 million (US\$1,048) and was further paid in May 2019. The change in fair value in the contingent consideration payable was recorded as fair value change in connection with business combination in the Company's consolidated statements of operations.

On May 15, 2019, the Group exercised the remaining portion of its call option and acquired the additional 9% equity interest of Beijing Ruida for a total consideration of RMB38.3 million (US\$5,580). The total consideration was paid on May 26, 2019 and the transaction was accounted for as an equity transaction. As a result, the noncontrolling interest over Beijing Ruida decreased from 49% to 40%.

**4. SHORT-TERM INVESTMENTS**

Short-term investments consist of both held-to-maturity and available-for-sale investments. Fixed-income financial products purchased from banks in China are classified as held-to-maturity investments as the Group has the positive intent and ability to hold the investments to maturity. The maturity of the financial product is 34 days, with interest rate of 3.15% for the product the Group holds as of September 30, 2019. The Group holds no held-to-maturity investment as of September 30, 2020. These held-to-maturity investments are classified as short-term investments on the consolidated balance sheets as its contractual maturity dates are less than one year. Financial products purchased from banks with early redemption option and no specified maturity date are classified as short-term available-for-sale investments and are measured at fair value on a recurring basis. While these fixed-income financial products are not publicly traded, the Group estimated that their fair value approximated their amortized costs considering their short-term maturities and high credit quality. No OTTI loss was recognized for the years ended September 30, 2019 and 2020.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**4. SHORT-TERM INVESTMENTS** - continued

Short-term investments consisted of the following:

	As of September 30,	
	2019	2020
	US\$	US\$
Held-to-maturity investments	1,517	—
Available-for-sale investments	20,601	20,343
	22,118	20,343

**5. ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net, consisted of the following:

	As of September 30,	
	2019	2020
	US\$	US\$
Accounts receivable	8,612	8,018
Less: allowance for doubtful accounts	(1,282)	(1,864)
Accounts receivable, net	7,330	6,154

Movement of allowance for doubtful accounts was as follows:

	As of September 30,	
	2019	2020
	US\$	US\$
Balance at beginning of the year	1,342	1,282
(Reversal) provision of the allowance for doubtful accounts	(8)	499
Foreign currency adjustment	(52)	83
Balance at end of the year	1,282	1,864

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**6. INVENTORIES**

Inventories consisted of the following:

	As of September 30,	
	2019	2020
	US\$	US\$
Books and other goods	3,727	3,482
Paper and other raw materials	1,035	1,671
Less: inventory provisions for slow-moving and obsolescence	(530)	(290)
Total	<u>4,232</u>	<u>4,863</u>

Inventory provisions were US\$15, US\$1,090 and US\$1,069 for the years ended September 30, 2018, 2019 and 2020, respectively.

**7. PREPAYMENT AND OTHER CURRENT ASSETS**

Prepayment and other current assets consisted of the following:

	Notes	As of September 30,	
		2019	2020
		US\$	US\$
Prepaid expenses		8,974	6,557
Capitalized commission fees	(1)	4,974	8,440
Advance to suppliers	(2)	3,938	4,799
Funds receivable	(3)	2,364	4,349
Staff advances	(4)	1,591	1,480
Receivable from disposal of a subsidiary	(5)	1,540	1,621
Others		<u>3,351</u>	<u>4,069</u>
Prepayment and other current assets, net		<u>26,732</u>	<u>31,315</u>

- (1) Capitalized commission fees primarily consist of the incremental sales commission relating to obtaining the customer contracts as described in Note 2.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**7. PREPAYMENT AND OTHER CURRENT ASSETS - continued**

- (2) Advance to suppliers represents interest-free cash deposits paid to suppliers for future purchase of raw materials and finished goods. The risk of loss arising from non-performance by or bankruptcy of the suppliers is assessed prior to making the deposits and is monitored on a regular basis by management. A charge to cost of sales will be recorded in the period in which a loss becomes probable. As of September 30, 2020, the Group has not experienced any loss of advance to suppliers.
- (3) Funds receivable arise due to the time taken to clear customers' payment transactions through external payment networks. When customers remit fees to the Group via external payment networks using their bank accounts or credit cards, there is a clearing period before the cash is received by the Group which usually takes one to three business days. These course fees are treated as a receivable until the cash is received.
- (4) Staff advances were provided to staff for travelling and business related use which were subsequently expensed when incurred.
- (5) Receivable from disposal of a subsidiary refers to the remaining consideration receivable due from the buyers of Beijing Champion Tax Management and Advisory Co., Ltd. ("Champion Tax Advisory"), a previously consolidated subsidiary of the Group. The balance as of September 30, 2019 and 2020 was received on January 8, 2020 and January 8, 2021, respectively.

**8. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net, consisted of the following:

	As of September 30,	
	2019	2020
	US\$	US\$
Buildings	8,756	9,216
Electronic and office equipment	20,069	20,107
Leasehold improvement and building improvement	10,843	15,935
Motor vehicles	2,086	2,294
<b>Total</b>	<b>41,754</b>	<b>47,552</b>
Less: Accumulated depreciation	(17,454)	(19,904)
Construction in progress	13,635	14,683
	<u>37,935</u>	<u>42,331</u>

Depreciation expenses were US\$3,069, US\$3,958 and US\$4,649 for the years ended September 30, 2018, 2019 and 2020, respectively.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**9. GOODWILL, NET**

Goodwill, net, consisted of the following:

	For the years ended September 30							
	2019				2020			
	Professional education services	Business start-up training services	Sales of learning simulation software	Total	Professional education services	Business start-up training services	Sales of learning simulation software	Total
US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	
Gross amount								
Beginning balance	56,214	1,642	21,660	79,516	54,016	1,517	20,813	76,346
Exchange difference	(2,198)	(125)	(847)	(3,170)	3,040	—	1,097	4,137
Ending balance	54,016	1,517	20,813	76,346	57,056	1,517	21,910	80,483
Accumulated impairment loss	—	(1,517)	—	(1,517)	—	(1,517)	—	(1,517)
Goodwill, net	54,016	—	20,813	74,829	57,056	—	21,910	78,966

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Group tested its goodwill for impairment at the following reporting units level.

**Professional education services** - This reporting unit provides online education services and other education related services to its customers located in the PRC. It includes all the subsidiaries, the VIEs and the VIEs' subsidiaries of the Group except for Zhengbao Yucai, Xiamen NetinNet and their subsidiaries. The goodwill arising from the acquisitions of the entities under this reporting unit is fully allocated to this reporting unit. The Group did not record any impairment of goodwill for the years ended September 30, 2018, 2019 and 2020 related to the professional education services.

**Business start-up training services** - This reporting unit provides start-up training services to the Group's customers located in the PRC. It includes Zhengbao Yucai and its subsidiaries. The goodwill arising from the acquisition of Zhengbao Yucai is fully allocated to this reporting unit. The revenues of Business start-up training services decreased significantly during the year ended September 30, 2019 due to the loss of the exclusive cooperation relationship with the government. As of September 30, 2019, the Group conducted two-step goodwill impairment testing with the assistance of a third party valuer and recognized US\$1,517 as impairment loss on goodwill related to the business start-up training services. The fair value of the reporting unit was determined using the income approach with significant unobservable inputs.

**Sales of learning simulation software** - This reporting unit provides learning simulation packaged software to its customers located in the PRC. It includes Xiamen NetinNet and its subsidiaries, Xiamen NetinNet Education Technology Co., Ltd., Xiamen NetinNet Finance Technology Co., Ltd., Beijing NetinNet Technology Co., Ltd. and Yunqi Zhixin (Hangzhou) Technology Co., Ltd.. The goodwill arising from the acquisition of NetinNet is fully allocated to this reporting unit. The Group did not record any impairment of goodwill for the years ended September 30, 2018, 2019, and 2020 related to the sales of learning simulation software.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**10. OTHER INTANGIBLE ASSETS, NET**

The balance of other intangible assets, net, consisted of the following:

	As of September 30,	
	2019	2020
	US\$	US\$
Computer software	5,858	6,452
Trademarks and domain names	5,429	5,730
Courseware	4,601	4,843
Business contracts	23,917	25,178
Copyrights	9,692	10,204
Others	871	918
<b>Total intangible assets</b>	<b>50,368</b>	<b>53,325</b>
Less: Accumulated amortization		
Computer software	(4,316)	(5,001)
Trademarks and domain names	(2,727)	(3,790)
Courseware	(1,857)	(3,213)
Business contracts	(5,667)	(10,457)
Copyrights	(5,346)	(7,227)
Others	(342)	(476)
<b>Accumulated amortization</b>	<b>(20,255)</b>	<b>(30,164)</b>
<b>Intangible assets, net</b>	<b>30,113</b>	<b>23,161</b>

Amortization expenses were US\$3,230, US\$8,765 and US\$8,566 for the years ended September 30, 2018, 2019 and 2020, respectively.

The estimated amortization expenses for the intangible assets for each of the following fiscal years are as follows:

	Amortization US\$
2021	8,551
2022	6,846
2023	5,841
2024	1,447
2025	273
2026 and thereafter	203
	<u>23,161</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**11. LONG-TERM INVESTMENTS**

Long-term investments consisted of the following:

	As of September 30,	
	2019	2020
	US\$	US\$
Equity securities without readily determinable fair value:		
Beijing teacheredu.cn Science & Technology Co., Ltd. (“Beijing teacheredu”) (a)	11,199	11,789
Other equity securities without readily determinable fair value	762	1,473
Equity method investments:		
Beijing Champion Yuanjian Education Technology Co., Ltd. (“Yuanjian”) (b)	2,488	3,012
Other equity method investments (c)	2,590	941
Available-for-sale securities investments:		
Chongqing Moses Robots Co., Ltd. (“Chongqing Moses Robots”) (d)	4,617	5,597
Beijing Niuke Technology Co., Ltd (“Niuke Technology”) (e)	2,434	2,353
Other available-for-sale investments (f)	1,289	1,159
<b>Total</b>	<b><u>25,379</u></b>	<b><u>26,324</u></b>

- (a) In December 2017, the Group entered into a share transfer agreement with certain shareholders of Beijing teacheredu, an organization specialized in teacher’s continuing education, to purchase 14.5% equity interest for a consideration of RMB80.0 million (US\$11,119). The Group accounted for the equity investments using the measurement alternative when the equity method is not applicable and there is no readily determinable fair value for the investments. In October 2020, Beijing teacheredu completed its share issuance plan and the equity interest held by the Group was reduced from 14.5% to 13.8%. For the years ended September 30, 2018, 2019 and 2020, no impairment loss was recorded in regard to the investment.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**11. LONG-TERM INVESTMENTS - continued**

- (b) On December 29, 2018, the Group entered into a Share Transfer Agreement with Beijing Zhengbao TongChuang Technology Co., Ltd (“TongChuang”) and Beijing Zhengbao TongCheng Co., Ltd (“TongCheng”), to transfer 60% equity interest of Champion Tax Advisory to its key employees, for a total consideration of RMB35.9 million (US\$5,020) (refer to Note 17). Upon the completion of the share transfer, the Group holds 40% of Champion Tax Advisory, which was subsequently renamed as Yuanjian. The Group maintains significant influence over Yuanjian, and therefore, the remaining 40% equity interest retained was accounted for as an equity method investment. During the years ended September 30, 2019 and 2020, the Group recorded share of net (loss) income amounting to US\$(658) and US\$386, respectively.
- (c) The other equity method investments represent several insignificant investments classified as equity method investments as of September 30, 2019 and 2020. During the years ended September 30, 2018, 2019 and 2020, the Group recorded share of net income (loss) amounting to US\$61, US\$(47) and US\$(941), respectively. During the years ended September 30, 2018, 2019 and 2020, the Group recorded impairment loss from long-term investments amounting to nil, nil and US\$910, respectively.
- (d) In November 2017, the Group entered into a capital contribution agreement with Chongqing Moses Robots, an industrial automation solution provider, and its shareholders to purchase 10.0% equity interest for a consideration of RMB10.0 million (US\$1,503), with certain redemption features. The investment was classified as available-for-sale security as the Group determined that the shares were debt securities in nature due to the redemption features and measured the investment subsequently at fair value. Chongqing Moses Robots did not achieve pre-agreed performance target, as a result, one of the redemption events was triggered. As part of the redemption process, the Group and the investee agreed to exchange the cash redemption for a 5% additional equity interest issued by the founding shareholders to the Group. As a result, the Group further increased its equity interest in Chongqing Moses Robots to 15%. Unrealized holding gain of US\$1,070 and US\$626 was reported in other comprehensive loss for the years ended September 30, 2019 and 2020, respectively.
- (e) In September 2016, the Group purchased 8.5% equity in Niuke Technology for RMB4.3 million (US\$639). In April 2018, Niuke Technology issued additional shares of which the Group subscribed additional 3% equity interest for RMB4.5 million (US\$655), resulting in a 10.65% stake of total ownership. The Group accounted for both the initial and subsequent investments as available-for-sale as the Group determined that the shares were debt securities in nature due to certain redemption features. The Group initially and subsequently measured the investment at fair value. Unrealized holding gain (loss) of US\$170 and US\$(178) were reported in other comprehensive income (loss) for the years ended September 30, 2019 and 2020, respectively.
- (f) Other investments represent several insignificant investments classified as available-for-sale investments as of September 30, 2019 and 2020. Unrealized holding gains (loss) of US\$135 and US\$(130) were reported in other comprehensive income (loss) for the years ended September 30, 2019 and 2020, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**12. FAIR VALUE MEASUREMENT***Measured or disclosed at fair value on a recurring basis*

The Group measures cash and cash equivalent and available-for-sale investments at fair value on a recurring basis. Cash and cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued based on the quoted market price in an active market.

Available-for-sale securities recorded in long-term investments included redeemable preferred shares. Available-for-sale securities recorded in short-term investments included certain financial products with early redemption options and no specified maturity dates.

The Group has no financial liabilities that are measured at fair value on a recurring basis. The Group's financial assets measured at fair value on a recurring basis are as follows:

	For the year ended September 30, 2020			
	Fair value as of September 30, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	US\$	US\$	US\$	US\$
<i>Fair value measured</i>				
Cash and cash equivalents	80,056	80,056	—	—
Short-term investments:				
Available-for-sale securities	20,343	—	20,343	—
Long-term investments:				
Available-for-sale securities	9,109	—	2,353	6,756
<b>Total assets measured at fair value</b>	<b>109,508</b>	<b>80,056</b>	<b>22,696</b>	<b>6,756</b>

	For the year ended September 30, 2019			
	Fair value as of September 30, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	US\$	US\$	US\$	US\$
<i>Fair value measured</i>				
Cash and cash equivalents	67,977	67,977	—	—
Short-term investments:				
Available-for-sale securities	20,601	—	20,601	—
Long-term investments:				
Available-for-sale securities	8,340	—	1,289	7,051
<b>Total assets measured at fair value</b>	<b>96,918</b>	<b>67,977</b>	<b>21,890</b>	<b>7,051</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**12. FAIR VALUE MEASUREMENT - continued**

*Measured or disclosed at fair value on a recurring basis - continued*

Redeemable preferred shares do not have quoted market price and the Company measured their fair value based on recent transactions or based on the market approach when no recent transactions are available. Recent transactions include the purchase price agreed by an independent third party for an investment with similar terms or a recent transaction agreed by the Company and the investee and has been classified as Level 2 measurement.

When no recent transactions are available, a market approach is used by the Company to measure fair value. The market approach takes into consideration a number of factors including market multiple and discount rates from traded companies in the industry and requires the Company to make certain assumptions and estimates regarding industry factors. Specifically, some of the significant unobservable inputs included the investee's historical earning on sales, discount of lack of marketability, investee's time to Initial Public Offerings ("IPO") as well as related volatility. The Company has classified those as Level 3 measurement. The assumptions are inherently uncertain and subjective. Changes in any unobservable inputs may have a significant impact on the fair values.

As of September 30, 2019, the fair values of available-for-sale investments classified as Level 3 were measured using the market approach with significant unobservable inputs were based on the following assumptions: (1) expected volatility of 44.6% to 57.5%, (2) discount rate of 30.0% to 34.0%, and (3) expected life of 3.1 years to 3.3 years. As of September 30, 2020, those assumptions included: (1) expected volatility of 51.6% to 56.9%, (2) discount rate of 15.0%, and (3) expected life of 2.1 years to 2.3 years.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**12. FAIR VALUE MEASUREMENT** - continued

*Measured or disclosed at fair value on a recurring basis* - continued

The Group did not have any transfers between Level 1 and Level 2 fair value measurements during the periods presented. The Group transferred one redeemable preferred share investment from Level 2 to Level 3 during the years ended September 30, 2019 and 2020. Specifically, the Group changed its measurement method from recent transactions to a market approach to determine the investment's fair value as no recent transactions were available. The Group also transferred one redeemable preferred share investment from Level 3 to Level 2 during the years ended September 30, 2019 and 2020, due to the availability of a recent transaction.

The following table provides additional information of reconciliation for the fair value measurements of assets using significant unobservable inputs (Level 3).

	Available-for-sale Investments
	US\$
Balance as of September 30, 2018	4,648
Transfer from Level 2 fair value measurement	2,327
Transfer to Level 2 fair value measurement	(1,154)
Unrealized gain	1,459
Exchange loss	(229)
Balance as of September 30, 2019	7,051
Transfer from Level 2 fair value measurement	1,289
Transfer to Level 2 fair value measurement	(2,434)
Unrealized gain	606
Exchange gain	244
Balance as of September 30, 2020	6,756

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**12. FAIR VALUE MEASUREMENT** - continued*Measured and disclosed fair value on a nonrecurring basis*

The Group measures goodwill and acquired intangible assets at fair value on a nonrecurring basis when it is annually evaluated or whenever events or changes in circumstances indicate that carrying amount of a reporting unit exceeds its fair value as a result of the impairment assessments. The Group measures the purchase price allocation at fair value on a nonrecurring basis as of the acquisition dates. The Group measured acquired intangible assets using income approach - discounted cash flow method when events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. The Group did not recognize any impairment losses related to acquired intangible assets arising from acquisitions for the years ended September 30, 2018, 2019 and 2020, respectively. The Group recognized nil, US\$1,517 and nil impairment loss related to goodwill during the years ended September 30, 2018, 2019 and 2020, respectively.

The Group measures equity securities without readily determinable fair value and equity method investments at fair value on a non-recurring basis whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. The Group recorded US\$546 and nil impairment loss on its equity securities without readily determinable fair value during the years ended September 30, 2019 and 2020, respectively. The Group recorded US\$343, US\$6,374 and US\$910 impairment loss on its equity method investments during the years ended September 30, 2018, 2019 and 2020, respectively. Refer to Note 11.

**13. OTHER NON-CURRENT ASSETS**

Other non-current assets consisted of the following:

	Notes	As of September 30,	
		2019	2020
		US\$	US\$
Long-term prepaid expenses	(1)	3,864	2,318
Rental deposits	(2)	1,017	1,244
Long-term capitalized commission fees	(3)	3,251	3,043
Long-term receivables		1,540	—
Others		420	884
		<u>10,092</u>	<u>7,489</u>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**13. OTHER NON-CURRENT ASSETS - continued**

- (1) Long-term prepaid expenses represent golf club membership fees. Such fees are amortized over ten years and are recorded as general and administrative expenses on the consolidated statements of operations.
- (2) Rental deposits represent office rental deposits for the Group's daily operations, which will not be refunded within one year.
- (3) Long-term capitalized commission fees primarily consist of the long-term incremental sales commission relating to obtaining the customer contracts as described in Note 2.

**14. ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consisted of the following:

	Note	As of September 30,	
		2019 US\$	2020 US\$
Tuition fee payable to government agencies	(1)	12,971	24,109
Salary and welfare payable		8,691	10,577
Accrued expenses		8,317	11,386
Remuneration payable to lecturers		2,701	4,648
Uncertain income tax liabilities (Note 19)		152	160
Other payable		5,435	4,574
		<u>38,267</u>	<u>55,454</u>

- (1) Tuition fee payable to government agencies mainly represents the portion of tuition fees collected by the Group on behalf of the government agencies which provide certain continuing education courses. The Group is only responsible for the student enrollment and provision of online platform and shares certain percentage of tuition fees as service fees.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**15. BANK BORROWINGS**

On June 22, 2015, the Company entered into a 3-year US\$/RMB Revolving Term Loan Facility with a maximum of RMB300 million facility limit with the Bank of East Asia, Limited (the “BEA Facility”) which remained effective for three years. The BEA Facility was further extended to April 1, 2020 with a new facility limit of RMB115.2 million on June 27, 2019. The details of the loans entered under the BEA Facility for the years ended September 30, 2018, 2019 and 2020 are listed as follows:

- On June 22, 2018, the loan originally drawn down in 2017 was subsequently renewed in an amount of US\$15,081 and extended to June 26, 2019, with an annual interest rate of approximately 3.437%, subject to adjustment each quarter. In connection with the loan agreement, an additional term deposit of RMB11.6 million (US\$1,738) was provided to the bank. An additional term deposit of RMB3.6 million (US\$526) was made by Champion Technology with maturity date on June 25, 2019 and recorded as restricted cash on the consolidated balance sheet as of September 30, 2018.
- On June 27, 2019, the loan was terminated and replaced by a new loan agreement, for an amount of RMB115.2 million under the BEA Facility, with a maturity date of March 31, 2020. The loan bears interest rate of 3.43% subject to adjustment each quarter. The loan is scheduled to be repaid in two installments before the following dates: November 30, 2019 and March 31, 2020, in an amount of US\$3,000 and US\$12,100, respectively. On November 22, 2019 and March 27, 2020, US\$3,000 and US\$12,100 were repaid according to the payment schedules. The term deposit used to secure the loan was subsequently released upon the settlement.

On November 17, 2017, the Company entered into a one-year Term Loan Facility with a maximum of US\$40,000 facility limit with Hang Seng Bank (“HSB Facility”), which remained effective for one year. This loan was further extended to September 30, 2019 with a new credit limit of US\$48,300 on October 23, 2018. The facility limit was further extended to January 14, 2020 with a new credit limit of US\$30,300 on May 17, 2019. The new facility is scheduled to be repaid in four installments before the following dates: June 14, 2019, September 14, 2019, December 14, 2019 and January 14, 2020, in the amount of US\$8,000, US\$6,000, US\$8,000, and US\$8,300, respectively. The details of the loans entered under the HSB Facility for the years ended September 30, 2018, 2019 and 2020 are listed as follows:

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**15. BANK BORROWINGS - continued**

- On December 18, 2017, US\$20,100 of the HSB Facility was drawn down at approximately 2.82% interest rate, subject to adjustment each quarter, for a term of 12 months. The loan was secured by a term deposit of RMB134.7 million (US\$20,246) provided by Champion Technology. The Group repaid US\$5,000 in November 2018. On December 14, 2018, the remaining US\$15,100 of the loan was subsequently renewed and extended to June 19, 2019 with a 3.49% annual interest rate, subject to adjustment each quarter. On May 17, 2019, the loan was subsequently renewed and extended to November 30, 2019, and it was further extended to January 14, 2020 on June 6, 2019, with a 3.59% annual interest rate, subject to adjustment each quarter. Part of the loan in an amount of US\$8,000 and US\$6,000 was repaid in June 2019 and September 2019, respectively. The balance of the loan of US\$1,100 was repaid on December 13, 2019. The term deposit used to secure the loan was subsequently released upon the settlement.
- On January 5, 2018, US\$15,200 of the HSB Facility was drawn down at approximately 2.91% interest rate, subject to adjustment each quarter, for a term of 12 months. The loan was secured by a term deposit of RMB101.8 million (US\$15,301) provided by Champion Technology. On December 20, 2018, the loan was subsequently renewed and extended to June 19, 2019 with an interest rate of 3.99%, subject to adjustment each quarter. On May 17, 2019, the loan was subsequently renewed and extended to December 19, 2019, and further extended to January 14, 2020 on June 6, 2019, with a 3.59% annual interest rate, subject to adjustment each quarter. The balance of the loan amounting to US\$6,900 and US\$8,300 were repaid on December 13, 2019 and January 14, 2020, respectively. The term deposit used to secure the loan was subsequently released upon the settlement.

On April 15, 2020, CDEL Hong Kong entered into a two-year Term Loan Facility with a maximum of US\$20,000 facility limit with Hang Seng Bank, which remains effective for two years.

- On April 15, 2020, US\$20,000 of the facility was drawn down at approximately 2.58% interest rate, subject to adjustment each quarter, for a term of 24 months. The loan was secured by a term deposit of RMB143.0 million (US\$21,062) provided by Zhongxi Healthcare Education. The loan is scheduled to be repaid in three installments before the following dates: April 14, 2021, October 14, 2021, and April 14, 2022, in an amount of US\$4,000, US\$8,000, and US\$8,000, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**15. BANK BORROWINGS - continued**

On July 19, 2017, Zhengbao Yucai entered into a three-year loan agreement for RMB132.6 million (US\$19,307) with Baoshang Bank Co., Ltd Beijing Branch (“BSB”). Under the agreement, Zhengbao Yucai is able to draw down RMB132.6 million (US\$19,307) from BSB for the purpose of acquiring 80% of NetinNet’s equity interest from Champion Technology. Refer to Note 23 for details regarding Zhengbao Yucai’s restructuring. The loan between Zhengbao Yucai and BSB is effective from July 21, 2017 to July 20, 2020, with an annual interest rate of 11%. The details of the loans for the years ended September 30, 2018, 2019 and 2020 are listed as follows:

- On July 21, 2017, Zhengbao Yucai and BSB signed an equity pledge agreement, pursuant to which Zhengbao Yucai agreed to provide a pledge of 80% of equity interest of NetinNet held by Zhengbao Yucai to secure the loan. The loan was drawn down on July 21, 2017.
- On January 31, 2018, Zhengbao Yucai elected to early repay an amount of RMB47.0 million (US\$6,843) of the loan. On May 24, 2019, Zhengbao Yucai elected to early repay an amount of RMB35.0 million (US\$5,073). The outstanding loan balance as of September 30, 2019 amounting to RMB50.6 million (US\$7,072) was fully paid in the year ended September 30, 2020.

The fair value of the bank borrowings with BEA, BSB and Hang Seng Bank was US\$38,502 and US\$4,012 as of September 30, 2019 and 2020, respectively. The fair value of the long-term bank borrowing with HSB was nil and US\$15,981 as of September 30, 2019 and 2020, respectively. The fair values of bank borrowings are measured based on the present value of the debt using market interest rates. The borrowings are categorized in Level 2 of the fair value hierarchy.

**16. RELATED-PARTY TRANSACTIONS**

The Group had the following balances and transactions with related parties:

The amounts due from related parties represent prepayments to certain investees for service fees related to student recruitment. The commission service fees related to student recruitment incurred for the years ended September 30, 2019 and 2020 amounted to US\$2,013 and US\$1,938, respectively.

The amounts due to related parties represent accrued service fees to investees for student recruitments services incurred during the years ended September 30, 2019 and 2020. The total service fee incurred for the years ended September 30, 2019 and 2020 amounted to US\$7,499 and US\$8,876, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**17. DECONSOLIDATION OF A SUBSIDIARY**

On December 29, 2018, the Group entered into a Share Transfer Agreement with Beijing Zhengbao TongChuang Technology Co., Ltd (“TongChuang”) and Beijing Zhengbao TongCheng Co., Ltd (“TongCheng”), to transfer 60% equity interest of Champion Tax Advisory to certain of its former employees, who ceased to be employees of the Group after the completion of the deconsolidation, for a total consideration of RMB35.9 million (US\$5,020). The Group determined with the assistance of a valuer that the consideration is representative of the fair value of Champion Tax Advisory. In accordance with the agreement, the total consideration shall be paid in three installments over two years from the date the agreement was entered into. The Group received the first two installments on December 29, 2018 and January 8, 2020, respectively. The remaining installment was due in December 2020 and is recorded in “prepayment and other current assets” as of September 30, 2020. The remaining installment was subsequently received on January 8, 2021.

On December 27, 2018, the transfer in equity interest of Champion Tax Advisory was completed and the effective control of Champion Tax Advisory was transferred. Therefore, Champion Tax Advisory was deconsolidated from the Group, and the Group recognized a gain amounting to RMB47.5 million (US\$6,869), out of which RMB14.3 million (US\$2,081) was contributed from the remeasurement gain related to the retained 40% equity interests. In addition, as the Group maintains significant influence over the deconsolidated subsidiary, the remaining 40% equity interests retained by the Group has been accounted for by using equity method, and Champion Tax Advisory is considered a related party to the Company after the deconsolidation. The remaining 40% equity interest was measured at its fair value using the discounted cash flow method with the following assumptions: (1) discount rate of 18.96% and (2) terminal value growth rate of 3%.

**18. RESTRICTED NET ASSETS**

Relevant PRC statutory laws and regulations permit payments of dividends by the Group’s PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with the PRC accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company’s subsidiaries.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**18. RESTRICTED NET ASSETS - continued**

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely the general reserve fund, the enterprise expansion fund and the staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts, which is included in retained earnings accounts in the equity section of the consolidated balance sheets. A wholly-owned foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve reaches 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. Champion Technology and Champion Education Technology were established as wholly-owned foreign invested enterprises and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory common reserve amounting to at least 10% of its annual after-tax profit until such reserve reaches 50% of its respective registered capital based on the enterprise's PRC statutory accounts. The Group's provision for the statutory common reserve is in compliance with the aforementioned requirement of the Company Law. A domestic enterprise is also required to provide for discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise's PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends.

Because the Group's entities in the PRC can only be paid out of distributable profits reported in accordance with the PRC accounting standards, the Group's entities in the PRC are restricted from transferring a portion of their net assets to the Company. The restricted amounts include the paid-in capital and statutory reserves of the Group's entities in the PRC. The aggregate amount of paid-in capital and statutory reserves, which represented the amount of net assets of the Group's entities in the PRC (mainland) not available for distribution, were US\$30,875 and US\$32,503, as of September 30, 2019 and 2020, respectively.

**19. INCOME TAX**

*Cayman Islands*

The Company is a tax-exempted company incorporated in the Cayman Islands. Under current law of Cayman Islands, the Company is not subject to income or capital gains taxes. In addition, dividends payments are not subject to tax withholding in the Cayman Islands.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**19. INCOME TAX - continued**

***Hong Kong***

CDEL Hong Kong, Practice Enterprises Network China International Links Limited and China Healthcare Education Limited have not recorded tax provision for Hong Kong profits tax as the companies have not had assessable profits arising in or derived from Hong Kong.

***China***

The Enterprise Income Tax Law (the “EIT Law”) of the PRC, which took effect on January 1, 2008, applies a uniform 25% enterprise income tax rate to all resident enterprise in China, including foreign invested enterprises.

Since 2008, Beijing Champion and Champion Technology qualified as “high and new technology enterprise strongly supported by the State” (“HNTE”) under the EIT Law, and therefore, were entitled to preferential income tax rates. Beijing Champion and Champion Technology renewed the HNTE qualification every 3 years, and therefore, were continually entitled to the preferential income tax rate of 15% through 2022. As a result, the Group applied 15% to determine the tax liabilities for these two entities.

Since 2012, Zhengbao Yucai obtained HNTE qualification and was entitled to preferential income tax rate of 15%. In September 2018, Zhengbao Yucai renewed the HNTE qualification, and is entitled to the preferential income tax rate in years 2018 through 2020.

NetinNet renewed its HNTE Status in October 2020 and therefore is entitled to the preferential income tax rate of 15% in years 2020 through 2022.

Champion Education Technology, Zhongxi Healthcare Education, Caikaowang, Nanjing Champion Vocational Training School, Beijing Chuang Qingchun Chuang Weilai Education Technology Co., Ltd., Guangdong Zhengbao Yucai Education Co., Ltd., Shanghai Huzheng Education Technology Co., Ltd., Jiangsu Asset, JinMaLan (Tianjin) Business Start-up Services Co., Ltd., JinMaLan (Anqing) Business Start-up Services Co., Ltd., Nanchang Champion Vocational Training School, Haimen Zhengbao Yucai Vocational Training School, Yunqi Zhixin (Hangzhou) Technology Co., Ltd. (collectively “small and micro businesses”) are small and micro business having annual taxable income of RMB1 million or less. The statutory tax rate for them is 25% for the calendar year 2020. However, according to Cai Shui[2019] No.13, a small and micro business having annual taxable income of RMB1.0 million (US\$140) or less, 25% shall be included in the taxable income, and the enterprise income tax shall be paid at the rate of 20%.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**19. INCOME TAX - continued**

*China* - continued

Under the EIT Law and its implementation rules, a withholding tax at 10%, unless reduced by a tax treaty or arrangement, is applied on dividends received by non-PRC-resident corporate investors from the PRC-resident enterprises, such as the Company's PRC subsidiaries. Undistributed earnings prior to January 1, 2008 are exempt from such withholding tax. Under the China-HK Tax Arrangement and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding rate of 5%. The Company believes that CDEL Hong Kong qualifies for the 5% withholding tax rate. CDEL Hong Kong's deferred tax liabilities related to potential withholding tax were US\$3,556 and US\$133 as of September 30, 2019 and 2020, respectively, on the undistributed earnings from its investment in the PRC entities generated after January 1, 2008. The related income tax expenses were US\$210, US\$544 and US\$333 for the years ended September 30, 2018, 2019 and 2020, respectively.

In general, the PRC tax authorities have up to five years to conduct examinations of the PRC entities' tax filings. Accordingly, the PRC entities' calendar years from 2015 to 2019 remain subject to examination by the tax authorities and US\$627 was reversed for the unpaid tax liability that was accrued before the 2015 calendar year.

Income before income taxes consisted of:

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Non - PRC	(656)	(3,332)	(12,574)
PRC	15,438	29,131	26,726
	14,782	25,799	14,152

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

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Current tax expenses	5,717	7,060	10,543
Deferred tax (benefit) expenses	(3,410)	1,061	(5,083)
	2,307	8,121	5,460



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)

19. INCOME TAX - continued

*China* - continued

The reconciliation of the effective tax rate and the statutory income tax rate applicable to the PRC operations is as follows:

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Income before taxes	14,782	25,799	14,152
Income tax expenses computed at applicable tax rates of 25%	3,696	6,450	3,538
Effect of different tax rates in different jurisdictions	770	704	3,010
Non-deductible expenses	152	1,059	1,362
Effect of tax holidays	(2,610)	(1,934)	(2,148)
Effect of valuation allowances	285	1,232	184
Withholding tax on undistributed earnings	313	689	141
Income tax reversal	(299)	(79)	(627)
	2,307	8,121	5,460
Effective income tax rate	15.61%	31.48%	38.58%

The aggregate amount and per share effect of the tax holidays are as follows:

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
The aggregate amount of tax holidays	2,610	1,934	2,148
The aggregate increase on basic and diluted net income per share:			
- Basic	0.02	0.01	0.02
- Diluted	0.02	0.01	0.02

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**19. INCOME TAX - continued***China* - continued

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred taxes are as follows:

	As of September 30,	
	2019	2020
	US\$	US\$
<b>Deferred tax assets</b>		
Advertising expenses carry-forwards	—	1,652
Accrued expenses	984	1,618
Allowance for doubtful accounts	1,031	1,073
Impairment loss from long-term investments	1,178	1,472
Property, plant and equipment	103	104
Net operating loss carry-forwards	2,811	4,585
	<u>6,107</u>	<u>10,504</u>
Less: valuation allowance	(2,242)	(2,616)
Total deferred tax assets	<u>3,865</u>	<u>7,888</u>
Deferred tax assets, net	<u>3,865</u>	<u>5,690</u>
<b>Deferred tax liabilities</b>		
Intangible assets	7,085	5,488
Withholding tax on undistributed earnings	3,556	133
Unrealized gain on available-for-sale investments	647	760
Capitalized commission fees	1,407	1,905
Total deferred tax liabilities	<u>12,695</u>	<u>8,286</u>
Deferred tax liabilities, net	<u>12,695</u>	<u>6,088</u>

The authoritative guidance requires that the Group recognizes the impact of a tax position in the financial statements if that position is more likely than not of being sustained upon audit by the tax authority, based on the technical merits of the position. Under PRC laws and regulations, arrangements and transactions among related parties may be subject to examination by the PRC tax authorities. If the PRC tax authorities determine that the contractual arrangements among related companies do not represent a price under normal commercial terms, they may make adjustments to the companies' income and expenses. A transfer pricing adjustment could result in additional tax liabilities.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**19. INCOME TAX - continued**

*China* - continued

As a result of the Group's assessment of its tax positions, the unrecognized tax benefits related to transfer price position prior to the year 2009 amounted to US\$152 and US\$160 as of September 30, 2019 and 2020, respectively. The subsequent changes of the unrecognized tax benefit were due to foreign currency adjustment.

Reconciliation of accrued unrecognized tax benefits is as follows:

	Unrecognized tax benefits <u>US\$</u>
Balance as of September 30, 2018	158
Foreign currency adjustment	<u>(6)</u>
Balance as of September 30, 2019	152
Foreign currency adjustment	<u>8</u>
Balance as of September 30, 2020	<u><u>160</u></u>

The Group does not anticipate any significant change in unrecognized tax benefits within 12 months from September 30, 2020.

In addition, uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The New EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese Income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the New EIT Law provide that non-resident legal entities will be considered the PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting and properties, occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income taxes, at a rate of 25%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)

**20. EMPLOYEE DEFINED CONTRIBUTION PLAN**

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the PRC subsidiaries of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Group has no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits, which were expensed as incurred, were US\$12,297, US\$12,773 and US\$8,820 for the years ended September 30, 2018, 2019 and 2020, respectively.

Obligations for contributions to defined contribution retirement plans for full-time employees in Hong Kong, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognized as expenses in the consolidated statements of operations as incurred, and the amounts were immaterial for the years ended September 30, 2018, 2019 and 2020.

**21. LEASES**

The Group has operating leases for floors and rooms of office buildings used as offices (the headquarters in Beijing and office space for subsidiaries in Jiangsu and Fujian) and parking lots. Certain leases include renewal options and/or termination options, which are factored into the Group's determination of lease payments when appropriate.

Operating lease cost for the year ended September 30, 2020 was US\$7,314, which excluded cost of short-term contracts. Short-term lease cost for the year ended September 30, 2020 was US\$45.

As of September 30, 2020, the weighted average remaining lease term was 7.3 years and weighted average discount rate was 4.9% for the Group's operating leases.

Supplemental cash flow information related to the operating leases is as follow:

	For the year ended September 30, 2020
	US\$
Cash payments for the operating leases	6,592
ROU assets obtained in exchange for the new operating lease liabilities	29

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)

21. LEASES - continued

A summary of maturity analysis of the annual undiscounted cash flows for the operating lease liabilities as of September 30, 2020 is as follows:

	US\$
Years ending September 30, 2021	5,411
2022	4,986
2023	4,579
2024	4,666
2025	3,931
2026 and thereafter	8,806
Total future lease payments	32,379
Less: Imputed interest	(5,130)
Present value of operating lease liabilities	27,249

As of September 30, 2019, the future minimum lease payments under the Group's non-cancelable operating lease agreements based on ASC 840 are as follow:

	US\$
Years ending September 30, 2020	9,225
2021	5,169
2022	3,775
2023	3,701
2024	3,805
2025 and thereafter	21,195
Total future lease payments	46,870

22. COMMITMENTS AND CONTINGENCIES

*Legal contingencies*

The Group is a party in potential claims arising in the ordinary course of business. The Group does not believe that the resolution of these matters will have a material effect on its financial position or results of operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**22. COMMITMENTS AND CONTINGENCIES - continued***Assets pledged as security for bank borrowings*

As disclosed in Note 15, on April 15, 2020, the Company entered into a loan agreement with Hang Seng Bank for a total of US\$20,000 term loan facility. The total facility was secured by a term deposit of RMB143.0 million (US\$21,062) provided by Champion Healthcare Education, which was recorded in “restricted cash-current” and “restricted cash-non-current” on the consolidated balance sheet as of September 30, 2020.

**23. NONCONTROLLING INTERESTS**

Noncontrolling interests represent the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The consolidated financial statements include all assets, liabilities, revenues and expenses at their consolidated amounts, which include the amounts attributable to the Company and the noncontrolling interest. The Company recognizes as a separate component of equity and earnings on the portion of income or loss attributable to noncontrolling interests based on the portion of the entity not owned by the Company.

The following table presents the changes in the Company’s noncontrolling interests during the years ended September 30, 2018, 2019 and 2020.

	Zhengbao Yucai US\$	NetinNet US\$	Jiangsu Asset US\$	Beijing Ruida US\$	Total US\$
Balance as of September 30, 2018	15,319	8,719	1,059	40,394	65,491
Capital contribution from noncontrolling interest shareholders	29	—	—	—	29
Purchase of equity interests from noncontrolling interest shareholders	—	—	—	(7,119)	(7,119)
Foreign currency translation adjustment attributed to noncontrolling interest shareholders	(463)	(372)	(39)	(1,261)	(2,135)
Cash dividends paid to noncontrolling interests by a subsidiary	—	(291)	—	—	(291)
(Loss) gain attributed to noncontrolling interest shareholders	(6,173)	1,808	(55)	(640)	(5,060)
Balance as of September 30, 2019	8,712	9,864	965	31,374	50,915
Capital contribution from noncontrolling interest shareholders	—	367	—	—	367
Foreign currency translation adjustment attributed to noncontrolling interest shareholders	426	531	53	1,516	2,526
Cash dividends paid to noncontrolling interests by a subsidiary	—	(847)	—	(1,699)	(2,546)
(Loss) gain attributed to noncontrolling interest shareholders	(1,017)	506	101	(1,883)	(2,293)
Balance as of September 30, 2020	8,121	10,421	1,119	29,308	48,969

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**23. NONCONTROLLING INTERESTS - continued**

On July 10, 2018, the Group entered into a new share transfer agreement, by exercising a portion of the call option, to purchase additional 11% equity interest of Beijing Ruida, for a cash consideration of RMB39.6 million (US\$5,931), subject to price adjustment under certain pre-agreed conditions. Refer to Note 3. Together with the 40% equity interest acquired previously, the Group holds a total of 51% equity interest of Beijing Ruida. The noncontrolling interest of 49% equity interest over Beijing Ruida has been included in the consolidated financial statements as of September 30, 2018, 2019 and 2020.

On May 15, 2019, the Group decided to exercise the remaining portion of the call option, to acquire the additional 9% equity interest of Beijing Ruida according to the agreement, for a total consideration of RMB38.3 million (US\$5,580). The total consideration was paid on May 26, 2019. The Group completed the transaction on August 1, 2019, which was accounted for as an equity transaction. Together with the 51% equity interest acquired previously, the Group holds a total of 60% equity interest of Beijing Ruida.

The schedule below discloses the effect of changes in the ownership interest on the Company's equity:

	For the years ended September 30,		
	2018 US\$	2019 US\$	2020 US\$
Net income attributable to the Company	11,626	21,254	10,430
Transfers from noncontrolling interest:			
Increase in the Group's additional paid-in capital in relation to capital contribution made by Jiangsu Asset's noncontrolling interest	29	—	—
Increase in the Group's additional paid-in capital in relation to share purchase from noncontrolling interests of Beijing Ruida	—	810	—
Changes from net income attributable to the Company's shareholders and transfer from noncontrolling interests	<u>11,655</u>	<u>22,064</u>	<u>10,430</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**24. SEGMENT REPORTING**

The Group's chief operating decision maker has been identified as the Chief Executive Officer who reviews U.S. GAAP financial information of its operating segments when making decisions about allocating resources and assessing the performance of the Group. The Group identified three operation segments, including professional education services, business start-up training services and the sales of learning simulation software for the years ended September 30, 2018, 2019 and 2020.

The Group operates primarily in the PRC and substantially all of the Group's long-lived assets are located in the PRC. The Group's chief operating decision maker evaluates performance based on each reporting segment's net revenues, operating costs and expenses, and operating income. Net revenues, operating costs and expenses, operating income, and total assets by segment were as follows:

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
<b>Net revenues</b>	<b>166,668</b>	<b>211,822</b>	<b>209,558</b>
Professional education services	150,484	196,047	197,835
Business start-up training services	4,608	2,796	2,207
Sales of learning simulation software	11,576	12,979	9,516
<b>Operating costs and expenses:</b>			
Cost of sales	(87,883)	(104,741)	(101,598)
Professional education services	(79,168)	(96,044)	(94,162)
Business start-up training services	(2,644)	(1,777)	(1,033)
Sales of learning simulation software	(6,071)	(6,920)	(6,403)
Selling and marketing	(44,717)	(61,460)	(69,848)
Professional education services	(39,698)	(56,334)	(65,474)
Business start-up training services	(1,127)	(1,226)	(915)
Sales of learning simulation software	(3,892)	(3,900)	(3,459)
General and administrative	(16,760)	(20,064)	(18,528)
Professional education services	(14,548)	(16,745)	(16,773)
Business start-up training services	(896)	(1,930)	(584)
Sales of learning simulation software	(1,316)	(1,389)	(1,171)
Impairment of goodwill	—	(1,517)	—
Business start-up training services	—	(1,517)	—
Unallocated corporate expenses	(4,493)	(4,855)	(6,950)
<b>Total operating costs and expenses</b>	<b>(153,853)</b>	<b>(192,637)</b>	<b>(196,924)</b>
Professional education services	(133,414)	(169,123)	(176,409)
Business start-up training services	(4,667)	(6,450)	(2,532)
Sales of learning simulation software	(11,279)	(12,209)	(11,033)
Unallocated corporate expenses	(4,493)	(4,855)	(6,950)
<b>Other operating income</b>	<b>3,051</b>	<b>2,968</b>	<b>6,155</b>
Professional education services	643	1,053	4,976
Business start-up training services	76	102	5
Sales of learning simulation software	2,332	1,813	1,174
<b>Operating income (loss)</b>	<b>15,950</b>	<b>22,848</b>	<b>18,789</b>
Professional education services	17,797	28,672	26,402
Business start-up training services	17	(3,552)	(320)
Sales of learning simulation software	2,629	2,583	(343)
Unallocated corporate expenses	(4,493)	(4,855)	(6,950)



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**24. SEGMENT REPORTING** - continued

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Segment assets	328,925	355,350	398,139
Professional education services	236,496	273,005	307,054
Business start-up training services	46,205	36,735	40,865
Sales of learning simulation software	46,224	45,610	50,220
Total assets	<u>328,925</u>	<u>355,350</u>	<u>398,139</u>
Amortization and depreciation	6,299	12,723	13,215
Professional education services	4,479	10,939	11,481
Business start-up training services	36	69	60
Sales of learning simulation software	1,784	1,715	1,674
(Loss) gain from equity method investments	(172)	(1,484)	(555)
Professional education services	58	(1,173)	(555)
Business start-up training services	(230)	(311)	—

**25. NET INCOME PER SHARE**

Basic and diluted net income per share for each of the periods presented were calculated as follows:

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
<b>Numerator:</b>			
Net income	11,626	21,254	10,430
- allocated to ordinary share - basic	11,583	21,117	10,352
- allocated to nonvested share - basic	43	137	78
<b>Denominator:</b>			
Weighted average number of ordinary shares outstanding	132,363,620	133,060,900	133,984,929
Weighted average number of nonvested share	487,685	862,436	1,010,719
Plus incremental weighted average ordinary shares from assumed exercise of share options using the treasury stock method	265,850	214,781	236,576
Weighted average ordinary shares outstanding used in computing diluted net income per share	<u>133,117,155</u>	<u>134,138,117</u>	<u>135,232,224</u>
Basic net income per share	0.09	0.16	0.08
Basic net income per nonvested share	0.09	0.16	0.08
Diluted net income per share	0.09	0.16	0.08
Diluted net income per nonvested share	0.09	0.16	0.08

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**26. SHARE INCENTIVE PLAN**

*Share options*

On April 18, 2008, the Company's shareholders approved the "China Distance Education Holdings Limited Share Incentive Plan" (the "Prior Plan"), which permits the grant of share options and shares to its employees and non-employees (the "Participants"). The maximum number of ordinary shares that may be delivered pursuant to compensatory awards granted to the Participants under the Prior Plan should not exceed 11,652,556 ordinary shares of par value US\$0.0001 per share. On July 2, 2008, the Company's shareholders approved the "China Distance Education Holdings Limited 2008 Performance Incentive Plan" (the "New Plan"). Subject to any amendment of the New Plan, the maximum number of ordinary shares that may be issued pursuant to the New Plan is equal to 5% of the total number of ordinary shares issued and outstanding as of August 4, 2008, plus an automatic annual increase on October 1 of each calendar year commencing with October 1, 2008, by an amount equal to the lesser of (i) 1%, 2% amended on November 28, 2017, of the total number of ordinary shares issued and outstanding on September 30 of the same calendar year, (ii) such number of ordinary shares as may be determined by the Company's board of directors, or (iii) 2,850,000 ordinary shares, as amended on November 28, 2017. The purpose of these share incentive plans is to promote the success of the Company and the interests of its shareholders by providing a means through which the Company may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of recipients with those of the Company's shareholders generally. The New Plan had an expiration date August 4, 2018, which was further extended to August 4, 2028. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest within 4 years of continuous services and have 10-year contractual terms. Share awards generally vest for a service period of 1 to 2 years.

On August 23, 2017, the Company's board of directors approved the modification of the exercise price of options granted on November 18, 2014 under Employee Stock Ownership Plan ("ESOP"). The exercise price was modified from US\$3.32 to US\$1.81 per share, which was determined by the closing price of the Company's American Depository Shares ("ADSs") on New York Stock Exchange ("NYSE") on the approval day. The Group used binomial option pricing model to measure the fair value of the incremental compensation cost, which is the excess of the fair-value-based measure of the modified award on the date of modification over the fair value of the original award immediately before the modification. The incremental fair value was recorded as compensation cost on the date of modification for vested awards and over the remaining service vesting period for unvested awards.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020**  
(In thousands, except share and per share data, or otherwise noted)

**26. SHARE INCENTIVE PLAN** - continued*Share options* - continued

A summary of the share options granted to employees and non-executive directors as of September 30, 2018, 2019 and 2020, and changes during the years ended September 30, 2018, 2019 and 2020 are as follows:

<u>Share option granted to employees and non-executive directors</u>	<u>Number of shares</u>	<u>Weighted-average exercise price</u>	<u>Weighted-average remaining contractual term (years)</u> US\$	<u>Aggregated intrinsic value</u> US\$
Outstanding as of September 30, 2017	<u>2,025,600</u>	2.85	6.53	—
Exercised	(895,148)	1.66		
Forfeited	(71,352)	1.17		
Outstanding as of September 30, 2018	<u>1,059,100</u>	1.39	5.58	718
Forfeited	(19,000)	1.81	5.14	—
Outstanding as of September 30, 2019	<u>1,040,100</u>	1.39	4.57	—
Forfeited	(71,100)	0.98	2.85	—
Outstanding as of September 30, 2020	<u>969,000</u>	1.29	3.62	1,067
Expected to vest as of September 30, 2020	—	—	—	—
Exercisable as of September 30, 2020	<u>969,000</u>	1.29	3.62	1,067

During the year ended September 30, 2018, all outstanding share options granted to non-employees in total of 57,000 shares were fully exercised. There were no share options granted to non-employees outstanding or exercisable as of September 30, 2018, 2019 and 2020.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**26. SHARE INCENTIVE PLAN - continued**

*Share options* - continued

The Company declared a cash dividend of US\$0.1125, nil and US\$0.145 per ordinary share on its outstanding shares to shareholders on the record date during the years ended September 30, 2018, 2019 and 2020, respectively. Refer to Note 27 for the disclosure of cash dividend. According to the terms of the Prior Plan and the New Plan, the exercise price was reduced for all the outstanding options by nil, nil and US\$0.145 during the years ended September 30, 2018, 2019 and 2020, respectively, following the approval of the Company's board of directors.

The total intrinsic value of options exercised during the years ended September 30, 2018, 2019 and 2020 were US\$749, nil and nil, respectively. The Company recorded share-based compensation expenses related to share options of US\$1,231, US\$143 and nil for the years ended September 30, 2018, 2019 and 2020, respectively. As of September 30, 2020, there was no unrecognized share-based compensation cost related to share options.

*Nonvested shares*

On December 3, 2019, the Company granted 175,000 nonvested shares to non-executive directors, which will be vested on the first anniversary of the issuance date. The grant-date value of a nonvested share was US\$1.97, which was the closing price of the Company's ADSs on NYSE on December 3, 2019. This grant resulted in a total share-based compensation of US\$345, and is expected to be recognized ratably over the requisite service period of one year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**26. SHARE INCENTIVE PLAN - continued**

*Nonvested shares* - continued

On December 20, 2019, the Company granted 541,132 nonvested shares to executive directors, officers and employees under the New Plan. These nonvested shares are subject to a one-year vesting period with two equal semi-annual installments. The grant-date value of the nonvested share was US\$1.93, which was the closing price of the Company's ADSs on NYSE on December 20, 2019. This grant resulted in a total share-based compensation of US\$1,057, and is expected to be recognized ratably over the requisite service period of one years.

On January 1, and January 12, 2020, the Company granted 220,504 and 173,052 nonvested shares to the co-chief financial officers. These nonvested shares are subject to a one-year vesting period with two semi-annual installments. The grant-date value of the nonvested share was US\$2.43 and US\$2.16, which was the closing price of the Company's ADSs on NYSE on January 1 and January 12, 2020, respectively. This grant resulted in a total share-based compensation of US\$910, and is expected to be recognized ratably over the requisite service period of one year.

These nonvested shares granted are restricted on transferability and will be forfeited if the directors cease to provide requisite services to the Company. Before the removal of such restrictions, the holders of the nonvested shares shall be entitled to all rights and privileges of those of ordinary shareholders, and shall be entitled to voting rights and dividends. Therefore, these nonvested shares are considered participating securities for the purpose of net earnings per share calculation.

The Company recorded share-based compensation expenses related to nonvested shares of US\$1,075, US\$1,862 and US\$2,618 for the years ended September 30, 2018, 2019 and 2020, respectively. As of September 30, 2020, there was US\$616 of share-based compensation related to nonvested shares that is expected to be recognized over a weighted average period of 0.2 year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**26. SHARE INCENTIVE PLAN - continued**

*Nonvested shares* - continued

A summary of the nonvested share activities for the years ended September 30, 2018, 2019 and 2020 is as follows:

	Number of Nonvested shares outstanding US\$	Weight average grant-date fair value	Aggregated intrinsic value US\$
Nonvested shares outstanding as of September 30, 2017	328,390	3.44	551
Granted	468,600	2.29	
Vested	(346,493)	3.11	
Nonvested shares outstanding as of September 30, 2018	450,497	2.49	933
Granted	955,168	1.76	
Forfeited	(19,944)	2.13	
Vested	(678,881)	2.16	
Nonvested shares outstanding as of September 30, 2019	706,840	1.84	965
Granted	1,109,688	2.08	—
Vested	(1,089,404)	1.96	—
Nonvested shares outstanding as of September 30, 2020	727,124	2.03	1,741
Nonvested shares expected to vest as of September 30, 2020	727,124	2.03	1,741

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2018, 2019 AND 2020  
(In thousands, except share and per share data, or otherwise noted)**

**25. SHARE INCENTIVE PLAN** - continued

*Share-based compensation expenses*

Total share-based compensation expenses of share-based awards granted to employees, non-employees and non-executive directors recognized for the years ended September 30, 2018, 2019 and 2020 are as follows:

	As of September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Cost of sales	161	23	139
General and administrative expenses	2,065	1,972	2,421
Selling expenses	80	10	58
	<u>2,306</u>	<u>2,005</u>	<u>2,618</u>

**27. CASH DIVIDEND**

On November 28, 2017, the Company approved and declared a cash dividend of US\$0.1125 per ordinary share on its total 132,804,973 outstanding shares as of the close of trading on January 12, 2018, resulting in payments totaling US\$14,949 to shareholders. Such dividend was recorded as a reduction against retained earnings.

On March 17, 2020, the Company approved and declared a cash dividend of US\$0.145 per ordinary share on its total 135,320,433 outstanding shares as of the close of trading on March 31, 2020, resulting in payments totaling US\$19,621 to shareholders. Such dividend was recorded as a reduction against retained earnings.

**28. SUBSEQUENT EVENTS**

- (1) On November 13, 2020, the Company granted 458,168 nonvested shares to executive directors, officers and employees. These nonvested shares are subject to one-year vesting period. The Company is in the process of assessing the accounting impact of this transaction.
- (2) On December 1, 2020, the Company announced that it has entered into a definitive agreement and plan of merger (the “Merger Agreement”) with Champion Distance Education Investments Limited (“Parent”) and China Distance Learning Investments Limited (“Merger Sub”), a wholly owned subsidiary of Parent, pursuant to which, subject to the terms and conditions thereof, Merger Sub will merge with and into the Company, with the Company continuing as the surviving entity and becoming a wholly-owned subsidiary of Parent (the “Merger”). If completed, the Merger will result in the Company becoming a privately-held company, the Company’s ADSs will no longer be listed on the NYSE, and its ADS program will be terminated.

On November 30, 2020, Parent received from China Merchants Bank (“CMB”) a Debt Commitment Letter, pursuant to which and subject to the conditions set forth therein, China Merchants Bank committed to provide a senior secured term loan facility in an aggregate principal amount of up to US\$200,000 to Parent to (i) complete the Merger and (ii) repay an existing margin loan made to Champion Shine Trading Limited, an investment holding company wholly owned and controlled by the Chairman, in the principal amount of US\$25,000.

- (3) On January 15, 2021, the outstanding loan balance amounting to US\$20,000 with Hang Seng Bank as of September 30, 2020 was early repaid by CDEL Hong Kong. This early settlement was mainly due to certain terms of the Debt Commitment Letter, which limit the user of the Parent’s future proceed upon privatization.

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

**Additional Information - Financial Statement Schedule I**  
**Condensed Financial Information of Parent Company**  
**BALANCE SHEETS**  
**(In thousands, except share data and per share data)**

	As of September 30,	
	2019	2020
	US\$	US\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,383	283
Prepayment and other current assets	381	427
Amounts due from subsidiaries	8,474	8,480
<b>Total current assets</b>	<b>10,238</b>	<b>9,190</b>
<b>Non-current assets</b>		
Long-term investments	1,289	1,159
Investment in subsidiaries	192,265	225,251
<b>Total non-current assets</b>	<b>193,554</b>	<b>226,410</b>
<b>Total assets</b>	<b>203,792</b>	<b>235,600</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accrued expenses and other liabilities	989	2,314
Amounts due to subsidiaries	98,434	155,311
Bank borrowings	31,538	—
<b>Total current liabilities</b>	<b>130,961</b>	<b>157,625</b>
<b>Total liabilities</b>	<b>130,961</b>	<b>157,625</b>
<b>Shareholders' equity</b>		
Ordinary shares (par value of US\$0.0001 per share; 500,000,000 shares authorized; 134,210,745 and 135,320,433 shares issued and outstanding as of September 30, 2019 and 2020, respectively)	13	14
Additional paid-in capital	24,507	27,316
Accumulated other comprehensive loss	(12,357)	(832)
Retained earnings	60,668	51,477
<b>Total equity</b>	<b>72,831</b>	<b>77,975</b>
<b>Total liabilities and equity</b>	<b>203,792</b>	<b>235,600</b>



CHINA DISTANCE EDUCATION HOLDINGS LIMITED

**Additional Information - Financial Statement Schedule I**  
**Condensed Financial Information of Parent Company**  
**STATEMENTS OF OPERATIONS**  
**(In thousands, except share data and per share data)**

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Cost of sales	(161)	(23)	(139)
Selling expenses	(80)	(10)	(58)
General and administrative expenses	<u>(2,887)</u>	<u>(3,100)</u>	<u>(5,823)</u>
Operating loss	(3,128)	(3,133)	(6,020)
Share of equity income in its subsidiaries and the VIEs	14,763	23,776	21,385
Interest income	1	21	6
Interest expenses	(2,110)	(2,261)	(932)
Exchange gain (loss)	2,100	2,851	(4,009)
Net income	<u>11,626</u>	<u>21,254</u>	<u>10,430</u>

CHINA DISTANCE EDUCATION HOLDINGS LIMITED

**Additional Information - Financial Statement Schedule I**  
**Condensed Financial Information of Parent Company**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**(In thousands, except share data and per share data)**

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
Net income	11,626	21,254	10,430
Other comprehensive (loss) income Foreign currency translation adjustment	(6,245)	(6,719)	11,207
Total comprehensive income	<u>5,381</u>	<u>14,535</u>	<u>21,637</u>

**Additional Information - Financial Statement Schedule I**  
**Condensed Financial Information of Parent Company**  
**STATEMENTS OF CASH FLOWS**  
**(In thousands, except share data and per share data)**

	For the years ended September 30,		
	2018	2019	2020
	US\$	US\$	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net cash (used in) provided by operating activities	(9,575)	18,025	49,752
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from share options exercised by employees	1,489	—	—
Loan to optionees in connection with exercise of options	(1,558)	—	—
Repayment of loan to optionees in connection with exercise of options	193	135	192
Capital contribution from noncontrolling interests	29	—	—
New short-term loans drawn down	20,573	—	—
Loan repayments	—	(19,000)	(31,423)
Dividends paid to shareholders	(14,949)	—	(19,621)
Net cash provided by (used in) financing activities	<u>5,777</u>	<u>(18,865)</u>	<u>(50,852)</u>
Net decrease in cash and cash equivalents and restricted cash	(3,798)	(840)	(1,100)
Cash and cash equivalents and restricted cash at beginning of the year	<u>6,021</u>	<u>2,223</u>	<u>1,383</u>
Cash and cash equivalents and restricted cash at end of the year	<u><u>2,223</u></u>	<u><u>1,383</u></u>	<u><u>283</u></u>

**Additional Information - Financial Statement Schedule I**  
**Condensed Financial Information of Parent Company**  
**NOTES TO FINANCIAL STATEMENTS**  
**(In thousands, except share data and per share data)**

**1. BASIS FOR PREPARATION**

The condensed financial information of the Parent Company has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the Parent Company used the equity method to account for investments in its subsidiaries and the VIEs. The condensed financial information is provided since the restricted net assets of the Group's subsidiaries, the VIEs and the VIEs' subsidiaries were over the 25% of the consolidated net assets of the Group as of September 30, 2020.

**2. INVESTMENTS IN SUBSIDIARIES AND THE VIEs**

In its consolidated financial statements, the Parent Company consolidates the results of operations and assets and liabilities of its subsidiaries, the VIEs and the VIEs' subsidiaries, and inter-company balances and transactions were eliminated upon consolidation. For the purpose of the Parent Company's standalone financial statements, its investments in subsidiaries are reported using the equity method of accounting and the Parent Company's share of income from its subsidiaries are reported as the single line item of share of equity income in its subsidiaries and the VIEs.

The Parent Company's share of equity income in its subsidiaries and the VIEs recognized during the years ended September 30, 2018, 2019 and 2020 were US\$14,763, US\$23,776 and US\$21,385, respectively.

**DESCRIPTION OF SECURITIES  
REGISTERED UNDER SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

The American Depositary Shares (“ADSs”), each representing four ordinary shares of China Distance Education Holdings Limited (“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 New York Stock Exchange. This exhibit contains a description of the rights of (i) the holders of our ordinary shares and (ii) the holders of our ADSs. Our ordinary shares underlying the ADSs are held by Deutsche Bank Trust Company Americas, as depositary (the “depositary” or the “depositary bank”), and holders of our ADSs are not treated as holders of our ordinary shares.

**DESCRIPTION OF ORDINARY SHARES**

**General**

Our authorized share capital is US\$50,000, divided into 500,000,000 ordinary shares, par value US\$0.0001 per share. The number of ordinary shares that had been issued as of September 30, 2020 is provided on the cover of the annual report on Form 20-F for the fiscal year ended September 30, 2020 of which this exhibit is a part. Ownership of our ordinary shares is not recognized until registered in our register of members. No shares shall be issued as bearer securities. Our ordinary shares are not available to the market; rather, our ADSs are traded on the New York Stock Exchange.

We are an exempted company incorporated with limited liability under the Companies Act (as amended) of the Cayman Islands (the “Companies Act”), in January 2008. Our shareholders who are non-residents and/or non-citizens 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 Act, including the filing of an annual return of its shareholders with the Registrar of Companies and holding an annual general meeting;
- does not have to make its register of members open to inspection;
- may obtain an undertaking against the imposition of any future taxation; and
- may issue shares with no par value.

Our affairs are governed by our second amended and restated memorandum and articles of association (as amended, the “Memorandum and Articles of Association”) and the Companies Act. The following summarizes the material terms of our Memorandum and Articles of Association and the Companies Act insofar as they relate to the material terms of our ordinary 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 ordinary shares and the rights of holders of ordinary shares. The holders of our ADSs will not be treated as our shareholders and will be required to surrender their ADSs for cancellation and withdrawal from the depositary facility in which the ordinary shares are held in order to receive the shares that their ADSs represent, and to exercise shareholders’ rights in respect of the ordinary shares. However, the holders of ADSs generally have the right under our deposit agreement with the depositary, dated July 29, 2008 (as supplemented by the Restricted Issuance Agreement dated as of August 16, 2010, the “depositary agreement”) to instruct the depositary bank to exercise the voting rights for the ordinary 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 ordinary 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, subject to the Companies Act, nevertheless, 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 ordinary 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 show of hands unless voting by way of a poll is required by the rules of the New York Stock Exchange, 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 New York Stock Exchange, 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 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 a “special resolution” (meaning a majority of not less than two-thirds of affirmative votes cast by the holders of the shares of the Company, being entitled so to do, at a general shareholders meeting) and any other sanction required by the Companies Act, divide among our shareholders in specie or kind the whole or any part of our assets (whether or not they shall consist of properties of the same kind) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also vest any part of these assets in trustees upon such trusts for the benefit of the shareholders as the liquidator shall think fit, but so that no shareholder will be compelled to accept any shares or other property upon which there is a liability.

### **Modification of Rights**

Except with respect to share capital (as described below) and the location of the registered office, alterations to our Memorandum and Articles of Association may only be made by special resolution.

Subject to the Companies Act and without prejudice to the provisions relating to share rights in our Memorandum and Articles of Association, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of our Memorandum and Articles of Association relating to general meetings shall apply similarly to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting or at its adjourned meeting shall be a person or persons together holding (or represented by proxy) on the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

### **Alteration of Capital**

We may from time to time by the affirmative vote of a simple majority of the votes 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 or, in the case of shares without par value, diminish the number of shares into which our capital is divided, subject to the provisions of the Companies Act;
- sub-divide our shares or any of them into shares of smaller amounts than is fixed by our Memorandum and Articles of Association, subject nevertheless to the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, 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 special resolution, subject to any confirmation or consent required by the Companies Act, reduce our share capital or any capital redemption or other undistributable reserve in any manner authorized by law.

### **Transfer of Shares**

Subject to any applicable restrictions set forth in our Memorandum and Articles of Association, any of our shareholders may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in a form prescribed by the New York Stock Exchange 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);
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four; and
- a fee of such maximum sum as the New York Stock Exchange 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 New York Stock Exchange, 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 Act and our Memorandum and Articles of Association to purchase our own shares, subject to certain restrictions. Our directors may only exercise this power on our behalf, subject to the Companies Act, our Memorandum and Articles of Association and any applicable requirements imposed from time to time by the New York Stock Exchange or the SEC.

### **Dividends**

Subject to the Companies Act, our directors may declare dividends in any currency to be paid to our shareholders. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our directors determine is no longer needed. Our board of directors may also declare and pay dividends out of the share premium account or any other fund or account that can be authorized for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides, (1) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share; and (2) all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Our directors may also pay any dividend that is payable on any shares semi-annually or on any other dates, whenever our financial position, in the opinion of our directors, justifies such payment.

Our directors may deduct from any dividend or bonus payable to any shareholder all sums of money (if any) presently payable by such shareholder to us on account of calls or otherwise.

No dividend or other money payable by us on or in respect of any share shall bear interest against us.

In respect of any dividend proposed to be paid or declared on our share capital, our directors may resolve and direct that (1) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that our shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof if our directors so determine) in cash in lieu of such allotment or (2) the shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our directors may think fit. Our directors may also resolve in respect of any particular dividend that, notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every check or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to us.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by our board of directors for the benefit of our company until claimed. Any dividend 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

- if required by the New York Stock Exchange 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 New York Stock Exchange 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.

#### **Calls on Shares and Forfeiture of Shares.**

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

#### **Differences in Corporate Law**

The Companies Act is modeled after similar laws in England but does not follow recent changes in English laws. In addition, the Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the United States; specifically, in the state of Delaware.

*Mergers and Similar Arrangements.* The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies in the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with, among others, a declaration as to the solvency of the consolidated or surviving company, a statement of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

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

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provided that the dissenting shareholder complies strictly with the procedures set out in the Companies Act. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the ground that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Act also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders 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 Act.

The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, by notice in the prescribed manner require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, 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 New York Stock Exchange 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 and the SEC's rules applicable to such proposals. 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. The class A, class B, and class C directors stand for re-election at staggered intervals.

*Removal of Directors.* Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, directors may be removed at any time by special resolution of our shareholders notwithstanding any agreement between the Company and such director (but without prejudice to any claim for damages under such agreement).

*Transactions with Interested Shareholders.* The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute in its certificate of incorporation or bylaws, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target’s outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation’s outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

*Dissolution; Winding Up.* Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation’s outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its shareholders or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its shareholders. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Act and our Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

*Variation of Rights of Shares.* Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, subject to the Companies Act and without prejudice to the provisions relating to share rights in our Memorandum and Articles of Association, we may only vary the rights attached to any class of shares (subject to the terms of issue of the shares of that class) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

*Amendment of Governing Documents.* Under the Delaware General Corporation Law, a corporation’s certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. Under the Companies Act, our Memorandum and Articles of Association may only be amended by special resolution of our shareholders.

*Rights of Non-Resident or Foreign Shareholders.* There are no limitations imposed by our Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

*Directors' Power to Issue Shares.* Under our Memorandum and Articles of Association, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

### **Issuance of Additional Ordinary Shares or Preferred Shares**

Our Memorandum and Articles of Association authorizes our board of directors to issue additional ordinary 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 ordinary 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 ordinary shares.

Subject to applicable regulatory requirements, our board of directors may issue additional ordinary shares without action by our shareholders to the extent of available authorized but unissued shares. The issuance of additional ordinary 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 ordinary shares.

### **Inspection of Books and Records**

Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, our Memorandum and Articles of Association provide that our register of members will be open to inspection for such times and on such days as our board of directors shall determine. Our accounting and other records are not available for inspection (other than by the board of directors) unless otherwise provided by applicable law, authorized by the board of the directors, or by the shareholders in a general meeting. However, we will provide our shareholders with annual audited financial statements.

## **DESCRIPTION OF AMERICAN DEPOSITARY SHARES**

### **General**

American Depositary Shares are frequently referred to as "ADSs" and represent ownership interests in securities that are on deposit with a depositary bank. ADSs may be represented by certificates that are commonly known as "American Depositary Receipts" or "ADRs." Our ADRs are titled "American Depositary Receipt for American Depositary Shares representing deposited ordinary shares of China Distance Education Holdings Limited."



Deutsche Bank Trust Company Americas has agreed to act as the depositary bank for the ADSs representing our ordinary shares. The principal executive office of the depositary is located at 60 Wall Street, New York, NY 10005, U.S.A. A depositary bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Deutsche Bank AG, Hong Kong Branch (the “custodian”). We appointed Deutsche Bank Trust Company Americas as depositary pursuant to the 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 four ordinary shares on deposit with the custodian, including the right to receive any other property received by the depositary bank or the custodian on behalf of the owners of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations, and to instruct the depositary how you would like to vote the shares which your ADSs represent.

If you are an owner of ADSs, you are a party to the deposit agreement and therefore will be bound to its terms and to the terms of the ADR that represents your ADSs. The deposit agreement and the ADRs specify our rights and obligations as well as your rights and obligations as an owner of ADSs and those of the depositary. As a holder of our ADSs, you appoint the depositary 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 ordinary 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 (A) directly (i) by having an ADR registered in your name, or (ii) by holding ADSs in the Direct Registration System, or “DRS,” or (B) indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution.

## **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 ordinary 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**

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees, charges and expenses and any taxes withheld and governmental charges incurred, duties or governmental charges. You will receive these distributions in proportion to the number of shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our ordinary shares) set by the depositary with respect to the ADSs.

### ***Distributions of Cash***

The depositary will convert any cash dividend or other cash distribution we pay on the ordinary shares or any net proceeds from the sale of any ordinary shares, rights, securities or other entitlements into U.S. dollars, if it can do so in its judgment on a practicable basis and can transfer the U.S. dollars to the United States upon an averaged or other practicable basis without regard to any distinctions among ADS holders on account of exchange restrictions, the date of delivery of any ADR or otherwise. If that is not practicable, lawful or if any governmental agency or authority approval or license is needed and cannot be obtained or cannot be obtained without unreasonable cost or within a reasonable period, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is practicable to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, any withholding taxes, or other governmental charges together with fees and expenses of the depositary that must be paid will be deducted. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.

### ***Distributions of Shares***

The depositary may, upon our timely instruction, distribute additional ADSs representing any ordinary shares we distribute as a dividend or free distribution to the extent reasonably practicable and permissible under law subject to deduction of fees, charges and expenses of the depositary and taxes and governmental charges in accordance with the provisions of the deposit agreement. The depositary will only distribute whole ADSs. It will try to sell ordinary shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new ordinary shares. If we offer or cause to be offered to holders of the ordinary shares an option to elect to receive dividends in fully paid shares instead of cash, we will consult with the depositary to determine whether that option will be made available to you and, if so, the related procedures.

### ***Elective Distributions***

If we offer holders of our ordinary shares the option to receive dividends in either cash or ordinary shares, the depositary, after consultation with us and having received timely notice of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practical to make such elective distribution available to you, or it could decide that it is only legal or reasonably practical to make such elective distribution available to some but not all holders of the ADSs. In such case, the depositary shall, on the basis of the same determination as is made in respect of the ordinary shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing ordinary shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in ordinary shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of ordinary shares.

### ***Rights to Purchase Additional Shares***

If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary, after consultation with us and having received timely notice of such distribution by us, has discretion to determine how these rights are made available to you as a holder of the ADSs. We must first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is legal to do so. The depositary could decide that it is not legal or reasonably practical to make the rights available to you, or it could decide that it is only legal or reasonably practical to make the rights available to some but not all of the holders of the ADSs. The depositary could decide to sell the rights and distribute the proceeds in the same way as it does with cash. If the depositary decides that it is not legal or reasonably practical to make the rights available to you or sell the rights, the rights that are not distributed or sold could lapse. In that case, you will receive no value for them. The depositary is not responsible for a failure in determining whether or not it is legal or reasonably practical to distribute the rights to holders of ADSs in general or any holder in particular, for any foreign exchange exposure or loss incurred in connection with such sale or exercise or the content of any material forwarded to you by the depositary on our behalf. The depositary is liable for damages, however, if it acts with gross negligence or willful misconduct, in accordance with the provisions of the deposit agreement.

If the depositary makes rights available to you, it will exercise the rights and purchase the ordinary shares on your behalf. The depositary will then deposit the ordinary shares and deliver ADSs to you. It will only exercise rights if you pay it the exercise price and any other fees and charges of, and expenses incurred by, the depositary and any taxes and other governmental charges that the rights require you to pay.

U.S. securities laws or laws of the Cayman Islands may restrict the sale, deposit, transfers and cancellation of the ADSs represented by ordinary shares purchased upon the exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares.

### ***Other Distributions***

Subject to receipt of timely notice from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will send to you anything else we distribute on deposited securities by any means it deems practical in proportion to the number of ADSs held by you, upon receipt of applicable fees and charges of, and expenses incurred by, the depositary and net of any taxes and other governmental charges withheld. If it cannot make the distribution in that way, or has not received a timely request for distribution from us, the depositary has a choice. It may decide to sell by public or private sale, net of fees and charges of, and expenses incurred by, the depositary and any taxes and other governmental charges, what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to dispose of such property in any way it deems reasonably practicable for nominal or no consideration. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from us that it is legal to make that distribution.

The depositary may dispose of all or a portion of the property so distributed and deposited in such amounts and in such manner (includes public or private sale) as the depositary may deem practicable or necessary to satisfy any taxes (including applicable interest and penalties) and after governmental charges applicable to the distribution.

The depositary shall not be held responsible for the failure to make a distribution if the depositary determines that it is unlawful or impractical to make the distribution available to any ADS holders. We have no obligation to register ADSs, ordinary shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal, infeasible or impractical for us to make them available to you.

## **Issuance of ADSs**

The depositary will deliver ADSs if you or your broker deposit shares or evidence of rights to receive ordinary shares with the custodian. Upon each deposit of shares, receipt of related documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of, and expenses incurred by, the depositary and of any taxes or charges, such as stamp taxes or share transfer taxes or fees, the depositary will issue an ADR or ADRs in the name of the person entitled thereto evidencing the number of ADSs to which that person is entitled.

## **Cancellation of ADSs**

You may turn in your ADSs at the depositary's corporate trust office or by providing appropriate instructions to your broker. Upon payment of the fees and charges of, and expenses incurred by the depositary and of any taxes or charges, such as stamp taxes or share transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ADSs to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if feasible.

The depositary may only restrict the withdrawal of deposited securities in connection with:

- temporary delays caused by closing our transfer books or those of the depositary or the deposit of shares in connection with voting at a shareholders' meeting, or the payment of dividends;
- the payment of fees, taxes and similar charges; or compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

## **Interchange between Certificated ADSs and Uncertificated ADSs**

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to you an ADR evidencing those ADSs.

## **Voting Rights**

You may instruct the depositary to vote the deposited securities. Otherwise, you will not be able to exercise your right to vote unless you withdraw the shares. However, you may receive notice of the meeting without sufficient time to effect withdrawal of your shares. The voting rights of holders of ordinary shares are described in "— Voting Rights Attaching to the Shares" above.

Upon receipt of timely notice from us, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on and (2) explain how you may instruct the depositary to vote the ordinary shares or other deposited securities underlying your ADSs as you direct or you will be deemed to have directed. For instructions to be valid, the depositary must receive them on or before the date specified by the depositary in this regard. The depositary will try, as far as practical, subject to any applicable laws and the provisions of our Memorandum and Articles of Association, to vote or to have its agents vote the shares or other deposited securities as you instruct. Under the deposit agreement, if we do not timely procure the demand for a vote by poll with respect to any given resolution, and no other relevant party has made such a demand, the depositary shall refrain from voting and any voting instructions received from any ADS holders shall lapse. The depositary will have no obligation to demand voting on a poll basis with respect to any resolution and shall have no liability to any holder for not having demanded voting on a poll basis.

If the depositary (i) does not timely receive voting instructions from you or (ii) timely receives voting instructions from you but such voting instructions fail to specify the manner in which the depositary is to vote the deposited securities represented by your ADSs, the depositary shall deem you to have instructed the depositary to give a discretionary proxy to a person designated by us to vote such deposited securities and will give a discretionary proxy to a person designated by us to vote such deposited securities. The depositary will give such person a discretionary proxy in such circumstances to vote on all questions to be voted upon unless we inform the depositary that:

- we do not wish to receive a discretionary proxy;
- we are aware that substantial shareholder opposition exists against the outcome for which our designee would vote; or
- the outcome for which our designee would vote would materially and adversely affect shareholder rights.

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. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions or for the effect of such vote. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your ordinary shares are not voted as you requested.

### **Reclassifications, Recapitalizations and Mergers**

If we:

- change the nominal or par value of our ordinary shares;
- reclassify, split up, sub-divide, cancel or consolidate any of the deposited securities;
- recapitalize, reorganize, amalgamate, merge, consolidate, sell all or substantially all of our assets, or take any similar action; or
- distribute securities on the ordinary shares that are not distributed to you;

Then:

- the cash, shares or other securities received by the depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities; and
- the depositary may, and will if we ask it to, subject to receipt of an opinion that such action is in accordance with applicable law and regulation, (i) distribute some or all of the cash, securities or other property it received; (ii) deliver new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs identifying the new deposited securities; (iii) sell any securities or property received at public or private sale and allocate the net proceeds of such sale for the account of holders of ADSs on an averaged or other practicable basis without regard to any distinctions among holders and distribute the net proceeds as cash; or (iv) treat the cash, securities or other property it receives as part of the deposited securities, and each ADS will then represent a proportionate interest in that property subject in all cases to the fees, charges and expenses of the depositary and taxes and governmental charges withheld.

### **Amendment and Termination**

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended. An amendment can become effective before notice is given if necessary to ensure compliance with a new law, rule or regulation.

The depositary will terminate the deposit agreement if we ask it to do so, in which case the depositary will give notice to you at least 90 days prior to termination. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign and we have not appointed a new depositary within 90 days. In this case, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property, and deliver shares and other deposited securities upon cancellation of ADSs upon payment of any fees, charges, taxes or other governmental charges. After expiration of six months after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

### **Books of Depositary**

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary will maintain facilities in New York 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 or if any such action is deemed necessary or advisable by the depositary or us, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the ADRs or ADSs are listed, or under any provision of the deposit agreement or provisions of, or governing, the deposited securities, or any meeting of our shareholders or for any other reason.

### **Limitations on Obligations and Liabilities**

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary, including its agents:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or willful misconduct;
- are not liable if either of us is prevented, forbidden or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement, including, without limitation, requirements of any present or future law, regulation, governmental or regulatory authority or share exchange of any applicable jurisdiction, any present or future provisions of our Memorandum and Articles of Association, on account of possible civil or criminal penalties or restraint, any provisions of or governing the deposited securities or any act of God, war or other circumstances beyond each of our control as set forth in the deposit agreement;
- are not liable if either of us exercises or fails to exercise discretion permitted under the deposit agreement, the provisions of or governing the deposited securities or our Memorandum and Articles of Association;
- have no obligation to become involved in a lawsuit or other proceeding related to the deposited securities or ADSs or the deposit agreement on your behalf or on behalf of any other party;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper person;
- disclaim any liability for any action/inaction in reliance on the advice or information of legal counsel, accountants, any person presenting shares for deposit, holders and beneficial owners (or authorized representatives) of ADRs, or any person believed in good faith to be competent to give such advice or information;

- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADSs; and
- disclaim any liability for any indirect, special, punitive or consequential damages.

The depositary and any of its agents also disclaim any liability for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, or for any tax consequences that may result from ownership of ADSs, shares or deposited securities.

In the deposit agreement, we have agreed to indemnify the depositary under certain circumstances.

### **Requirements for Depositary Actions**

Before the depositary issues, delivers or registers a transfer of an ADS, makes a distribution on an ADS, or permits withdrawal of shares, the depositary may require:

- payment of share transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may also suspend the issuance and delivery of ADSs, the deposit of shares, the registration, transfer, split up or combination of ADSs or the withdrawal of deposited securities generally when the register of the depositary is closed or at any time if the depositary or we think it is necessary or advisable to do so.

### **Your Right to Receive the Ordinary Shares Underlying Your ADSs**

You have the right to cancel your ADSs and withdraw the underlying shares at any time except:

- when there are temporary delays caused by (1) the closing of the depositary's or our transfer books; (2) the transfer of shares is blocked to permitting voting at a shareholders' meeting; or (3) payment of dividends;
- when you or other ADS holders seeking to withdraw shares owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

### **Pre-release of ADSs**

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying shares. This is called a pre-release of the ADSs. The depositary may also deliver ordinary shares upon cancellation of pre-released ADSs, even if the ADSs are cancelled before the pre-release transaction has been closed out. A pre-release transaction is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADSs instead of ordinary shares to close out a pre-release transaction. The depositary may pre-release ADSs or shares only under the following conditions: (a) before or at the time of the pre-release, the person to whom the pre-release is being made (1) represents to the depositary in writing that it or its customer owns the ordinary shares or ADSs to be deposited, (2) assigns all beneficial right, title and interest in such shares or ADSs to the depositary for the benefit of the holders of ADSs, (3) undertakes to not take any action with respect to such shares or ADSs that is inconsistent with the transfer of beneficial ownership (including without the consent of the depositary, disposing of such shares or ADSs other than in satisfaction of such pre-release), (4) indicates the depositary as owner of such shares or ADSs in its records, and (5) unconditionally guarantees to deliver such shares or ADSs to the depositary or the custodian as the case may be; (b) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; (c) the depositary must be able to close out the pre-release on not more than five business days' notice; and (d) each pre-release is subject to such further indemnities and credit regulations as the depositary deems appropriate. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so, including (i) due to a decrease in the aggregate number of ADSs outstanding that causes existing pre-release transactions to temporarily exceed the limit stated above or (ii) where otherwise required by market conditions.



## Subsidiaries of Registrant

## Name:

## Wholly Owned Subsidiaries:

		Place of Incorporation
1.	China Healthcare Investment Limited	British Virgin Islands
2.	China Distance Education Ltd.	Hong Kong
3.	China Healthcare Education Limited	Hong Kong
4.	Practice Enterprises Network China International Links Ltd.	Hong Kong
5.	Beijing Champion Distance Education Technology Co., Ltd.	PRC
6.	Beijing Champion Education Technology Co., Ltd.	PRC
7.	Beijing Champion Accounting Education Technology Co., Ltd.	PRC
8.	Beijing Zhongxi Champion Healthcare Education Technology Co., Ltd.	PRC
9.	Xiamen Zhongxi Champion Education Technology Co., Ltd.	PRC
10.	Shanghai Xidong Information Technology Co., Ltd.	PRC
11.	Jiangsu Champion Education Technology Co., Ltd.	PRC

## Consolidated Controlled Companies:

1.	Beijing Zhengbao Yucai Education Technology Company Limited	PRC
2.	Nanjing Champion Vocational Training School	PRC
3.	Xiamen NetinNet Software Co., Ltd.	PRC
4.	Xiamen NetinNet Education Technology Co., Ltd.	PRC
5.	Xiamen NetinNet Finance Technology Co., Ltd.	PRC
6.	Yunqi Zhixin (Hangzhou) Technology Co., Ltd.	PRC
7.	Shanghai Huzheng Education Technology Co., Ltd.	PRC
8.	Beijing Chuang Qingchun Chuang Weilai Education Technology Co., Ltd.	PRC
9.	Guangdong Zhengbao Yucai Education Co., Ltd.	PRC
10.	JinMaLan (Tianjin) Business Start-up Services Co., Ltd.	PRC
11.	Beijing NetinNet Technology Co., Ltd.	PRC
12.	JinMaLan (Anqing) Business Start-up Services Co., Ltd.	PRC
13.	Nanchang Champion Vocational Training School	PRC
14.	Haimen Zhengbao Yucai Vocational Training School	PRC

## Consolidated Affiliated Companies:

1.	Beijing Champion Hi-Tech Co., Ltd.	PRC
2.	Beijing Caikaowang Company Limited	PRC
3.	Beijing Champion Wangge Education Technology Co., Ltd.	PRC
4.	Beijing Champion Culture Development Co., Ltd.	PRC
5.	Beijing Haidian District Champion Training School	PRC
6.	Beijing Champion Healthcare Education Technology Co., Ltd.	PRC
7.	Beijing Champion International Education Technology Co., Ltd.	PRC
8.	Jiangsu Zhengbao Asset Financial Advisory Co., Ltd.	PRC
9.	Jiangsu Caishuibang Enterprise Management Co., Ltd.	PRC
10.	Beijing Ruida Chengtai Education Technology Co., Ltd.	PRC
11.	Shenzhen Ruida Chengtai Education Technology Co., Ltd.	PRC
12.	Guangzhou Ruida Chengtai Education Technology Co., Ltd.	PRC
13.	Hangzhou Ruitai Education Technology Co., Ltd.	PRC
14.	Nanjing Ruida Chengtai Education Technology Co., Ltd.	PRC
15.	Beijing Youbang Culture and Art Training School	PRC
16.	Hainan Ruida Chengtai Education Technology Co., Ltd.	PRC
17.	Jiangsu Champion Healthcare Education Technology Co., Ltd.	PRC
18.	Jiangsu Champion E&C Education Technology Co., Ltd.	PRC
19.	Jiangsu Champion Self-taught Education Technology Co., Ltd.	PRC
20.	Beijing Champion H&E Technology Co., Ltd.	PRC
21.	Beijing Champion E&C Education Technology Co., Ltd.	PRC
22.	Beijing Champion Self-taught Education Technology Co., Ltd.	PRC

**Certification by the Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Zhengdong Zhu, certify that:

1. I have reviewed this annual report on Form 20-F of China Distance Education Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: January 22, 2021

By: /s/ Zhengdong Zhu

Name: Zhengdong Zhu

Title: Chief Executive Officer

**Certification by the Chief Financial Officers  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

We, Mark Marostica and Philip Chan, certify that:

1. I have reviewed this annual report on Form 20-F of China Distance Education Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: January 22, 2021

By: /s/ Mark Marostica  
Name: Mark Marostica  
Title: Co-Chief Financial Officer

By: /s/ Philip Chan  
Name: Philip Chan  
Title: Co-Chief Financial Officer

**Certification by the Chief Executive Officer  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Zhengdong Zhu, Chief Executive Officer of China Distance Education Holdings Limited (the “Company”), hereby certifies, to the best of his knowledge, that the Company’s annual report on Form 20-F for the year ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Date: January 22, 2021

By: /s/ Zhengdong Zhu  
Name: Zhengdong Zhu  
Title: Chief Executive Officer

**Certification by the Co-Chief Financial Officers  
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Mark Marostica and Philip Chan, Co-Chief Financial Officers of China Distance Education Holdings Limited (the “Company”), hereby certify, to the best of their knowledge, that the Company’s annual report on Form 20-F for the year ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Date: January 22, 2021

By: /s/ Mark Marostica  
Name: Mark Marostica  
Title: Co-Chief Financial Officer

By: /s/ Philip Chan  
Name: Philip Chan  
Title: Co-Chief Financial Officer

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-157129 on Form S-8 of our reports dated January 22, 2021 relating to the financial statements of China Distance Education Holdings Limited and the effectiveness of China Distance Education Holdings Limited's internal control over financial reporting, appearing in this Annual Report on Form 20-F for the year ended September 30, 2020.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Beijing, the People's Republic of China

January 22, 2021

競天公誠律師事務所  
JINGTIAN & GONGCHENG  
ATTORNEYS AT LAW

中国北京市朝阳区建国路 77 号华贸中心 3 号写字楼 34 层 邮政编码 100025

电话: (86-10) 5809-1000 传真: (86-10) 5809-1100

January 22, 2021

**China Distance Education Holdings Limited (the “Company”)**

18th Floor, Xueyuan International Tower  
1 Zhichun Road, Haidian District  
Beijing 100083, People’s Republic of China

Ladies and Gentlemen:

We have acted as legal advisor as to the laws of the People’s Republic of China to the Company in connection with the filing by the Company with the United States Securities and Exchange Commission of an annual report on Form 20-F for the fiscal year ended September 30, 2020 and any amendments thereto (the “Annual Report”).

We hereby consent to the use and reference to our name and our opinions and views in the Annual Report. We further consent to the filing of this letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the United States Securities Act of 1933, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Jingtian & Gongcheng  
Jingtian & Gongcheng