

Global Offering



NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

(continued in the Cayman Islands with limited liability)

Stock code: 9901

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers (in alphabetical order)



IMPORTANT

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.



NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

新東方教育科技集團*

(continued in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 8,510,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 510,600 Shares (subject to adjustment)
Number of International Offer Shares	: 7,999,400 Shares (subject to adjustment and the Over-allotment Option)
Maximum Public Offer Price	: HK\$1,399.00 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Par Value	: US\$0.01 per Share
Stock Code	: 9901

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers (in alphabetical order)



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A copy of this document, having attached thereto the documents specified in "Documents Available for Inspection — Documents Delivered to the Registrar of Companies" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this document or any of the other documents referred to above.

We expect to determine the pricing of the Offer Shares by agreement with the Joint Representatives, (for themselves and on behalf of the Underwriters) on or about Tuesday, November 3, 2020 and, in any event, not later than Friday, November 6, 2020. The Hong Kong Offer Price will be not more than HK\$1,399.00 per Offer Share, unless otherwise announced. If, for any reason, we do not agree with the Joint Representatives, (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Friday, November 6, 2020, the Global Offering will not proceed and will lapse.

We may set the International Offer Price at a level higher than the maximum Hong Kong Offer Price if, (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Hong Kong Offer Price as stated in this document; and/or (b) we believe that it is in the best interests of the Company as a listed company to set the International Offer Price at a level higher than the maximum Hong Kong Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process. If the International Offer Price is set at or lower than the maximum Hong Kong Offer Price, the Hong Kong Offer Price must be set at such price that is equal to the International Offer Price. Under no circumstance will we set the Hong Kong Offer Price above the maximum Hong Kong Offer Price as stated in this document or the International Offer Price.

The Joint Representatives, (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this document.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this document, including the risk factors set out in "Risk Factors." The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Representatives, (for themselves and on behalf of the Hong Kong Underwriters) if certain events occur prior to 8:00 a.m. on the Listing Date. See "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this document. It is important that you refer to that section for further details.

Our ADSs, each representing 1 common share, are listed for trading on the NYSE under the symbol "EDU". The last reported sale price of the ADSs on the NYSE on October 26, 2020 was US\$170.44 per ADS. In connection with the Global Offering, we have filed a registration statement on Form F-3 and a preliminary prospectus supplement and plan to file a final prospectus supplement with the SEC to register the sale of Shares under the U.S. Securities Act.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS DOCUMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Prospective investors should make the decision to invest in the Company only after due and careful consideration.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at <http://investor.neworiental.org/>. If you require a printed copy of this document, you may download and print from the website addresses above.

October 29, 2020

* For identification purposes only.

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This document is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at <http://investor.neworiental.org/>. If you require a printed copy of this document, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk;
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 2862 8690 on the following dates:

Thursday, October 29, 2020 — 9:00 a.m. to 9:00 p.m.
Friday, October 30, 2020 — 9:00 a.m. to 9:00 p.m.
Saturday, October 31, 2020 — 9:00 a.m. to 6:00 p.m.
Sunday, November 1, 2020 — 9:00 a.m. to 6:00 p.m.
Monday, November 2, 2020 — 9:00 a.m. to 9:00 p.m.
Tuesday, November 3, 2020 — 9:00 a.m. to 12:00 noon

IMPORTANT

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this document are identical to the printed document as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary, broker or agent**, please remind your customers, clients or principals, as applicable, that this document is available online at the website addresses above.

Please refer to “How to Apply for Hong Kong Offer Shares” for further details on the procedures through which you can apply for the Hong Kong Offer Shares electronically.

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 10 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
10	14,130.98	300	423,929.32	3,000	4,239,293.17	80,000	113,047,817.84
20	28,261.96	350	494,584.20	3,500	4,945,842.04	100,000	141,309,772.30
30	42,392.93	400	565,239.09	4,000	5,652,390.89	150,000	211,964,658.45
40	56,523.91	450	635,893.98	4,500	6,358,939.76	200,000	282,619,544.60
50	70,654.89	500	706,548.87	5,000	7,065,488.62	255,300 ⁽¹⁾	360,763,848.69
60	84,785.87	600	847,858.63	6,000	8,478,586.34		
70	98,916.84	700	989,168.41	7,000	9,891,684.06		
80	113,047.82	800	1,130,478.18	8,000	11,304,781.78		
90	127,178.80	900	1,271,787.96	9,000	12,717,879.51		
100	141,309.78	1,000	1,413,097.72	10,000	14,130,977.23		
150	211,964.66	1,500	2,119,646.59	20,000	28,261,954.46		
200	282,619.54	2,000	2,826,195.45	40,000	56,523,908.92		
250	353,274.43	2,500	3,532,744.31	60,000	84,785,863.38		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE⁽¹⁾

Hong Kong Public Offering commences	9:00 a.m. on Thursday, October 29, 2020
Latest time for completing electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Tuesday, November 3, 2020
Application lists open ⁽³⁾	11:45 a.m. on Tuesday, November 3, 2020
Latest time for (a) completing payment for White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Tuesday, November 3, 2020
If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.	
Application lists close ⁽³⁾	12:00 noon on Tuesday, November 3, 2020
Expected Price Determination Date ⁽⁵⁾	Tuesday, November 3, 2020
Announcement of the Public Offer Price and the International Offer Price on our website at http://investor.neworiental.org/ ⁽⁶⁾ and the website of the Hong Kong Stock Exchange at www.hkexnews.hk on or around	Tuesday, November 3, 2020
Announcement of the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on our website at http://investor.neworiental.org/ and the website of the Hong Kong Stock Exchange at www.hkexnews.hk on or before	Friday, November 6, 2020
The results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including:	
<ul style="list-style-type: none"> in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at http://investor.neworiental.org/ and www.hkexnews.hk, respectively 	Friday, November 6, 2020

EXPECTED TIMETABLE⁽¹⁾

- from the designated results of allocations website at
www.iporesults.com.hk (alternatively: English
<https://www.eipo.com.hk/en/Allotment>; Chinese
<https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID”
 function from

8:00 a.m. on Friday,
 November 6, 2020
 to 12:00 midnight on
 Thursday,
 November 12, 2020
- from the allocation results telephone enquiry by calling
 +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from

Friday, November 6, 2020,
 Monday, November 9,
 2020 to Wednesday,
 November 11, 2020

Share certificates in respect of wholly or partially successful applications to be
 dispatched or deposited into CCASS on or before⁽⁷⁾⁽⁹⁾ Friday, November 6, 2020

White Form e-Refund payment instructions/refund cheques in respect of wholly or
 partially successful applications (if applicable) or wholly or partially
 unsuccessful applications to be dispatched on or before⁽⁸⁾⁽⁹⁾ Friday, November 6, 2020

Dealings in the Shares on the Hong Kong Stock Exchange expected to commence
 at 9:00 a.m. on Monday,
 November 9, 2020

Notes:

- (1) All dates and times refer to Hong Kong local dates and time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, November 3, 2020, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares — Effect of bad weather and Extreme Conditions on the opening and closing of the application lists.”
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS or instructing your **broker** or **custodian** to apply on your behalf via CCASS should refer to “How to Apply for Hong Kong Offer Shares — Applications for the Hong Kong Offer Shares — Applying through CCASS EIPO service.”
- (5) The Price Determination Date is expected to be on or around Tuesday, November 3, 2020 and, in any event, not later than Friday, November 6, 2020. If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Friday, November 6, 2020, the Global Offering will not proceed and will lapse.
- (6) None of the websites set out in this section or any of the information contained on the websites forms part of this document.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.
- (8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Public Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a

EXPECTED TIMETABLE⁽¹⁾

third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

- (9) Applicants who have applied on **White Form eIPO** for 200,000 or more Hong Kong Offer Shares may collect any refund cheques (where applicable) and/or Share certificates in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, November 6, 2020 or such other date as notified by us as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to "How to Apply for Hong Kong Offer Shares — Despatch/collection of share certificates/e-refund payment instructions/refund cheques — Personal Collection — If you apply through **CCASS EIPO** service" for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Share certificates and/or refund cheques for applicants who have applied for less than 200,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in "How to Apply for Hong Kong Offer Shares — Refund of application monies" and "How to Apply for Hong Kong Offer Shares — Despatch/collection of share certificates/e-refund payment instructions/refund cheques."

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, please refer to "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares," respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, we will publish an announcement as soon as practicable thereafter.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This document is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this document pursuant to the Hong Kong Public Offering. This document may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorized by us, the Joint Sponsors, Joint Representatives, Joint Global Coordinators, Joint Bookrunners, and Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

	Page
Expected Timetable	iii
Contents	vi
Summary	1
Definitions	15
Glossary	26
Forward-looking Statements	27
Risk Factors	28
Information about this Document and the Global Offering	83
Waivers and Exemptions	95
Directors and Parties Involved in the Global Offering	119
Corporate Information	125
History	127
Industry	141

CONTENTS

	<i>Page</i>
Business	148
Financial Information	177
Directors and Senior Management	223
Major Shareholders	234
Related Party Transactions	236
Regulations	239
Share Capital	268
Use of Proceeds	270
Underwriting	272
Structure of the Global Offering	279
How to Apply for Hong Kong Offer Shares	290
Appendix I Accountants' Report	I-1
Appendix IA Unaudited Interim Condensed Consolidated Financial Information for the Three-month Period Ended August 31, 2020	IA-1
Appendix II Unaudited Pro Forma Financial Information	II-1
Appendix III Summary of our Constitution and Cayman Company Law	III-1
Appendix IV Statutory and General Information	IV-1
Appendix V Documents Available for Inspection	V-1

SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety and should be read in conjunction with the full prospectus. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in “Risk Factors.” You should read that section carefully before you decide to invest in the Offer Shares.

OUR MISSION

To provide students with empowerment, inspiration and horizon for a lifetime.

OUR VISION

To continue to be a highly respectable institution for its values and excellence.

The New Oriental way

We are committed to educating and inspiring students of all ages to achieve their potential, build self-confidence and develop a global vision with understanding and appreciation of both traditional Chinese culture and modern western cultures, as well as boosting students’ passion for learning, through the “New Oriental way” of innovative teaching and inspirational instruction. Our commitment to innovative and inspirational teaching is cultivated by our company culture that encourages creativity and our continued passion for education.

COMPANY OVERVIEW

In 1993, our founder and executive Chairman, Michael Minhong Yu, opened our first school in Beijing to offer TOEFL test preparation courses to college students. After nearly 30 years of operation, we have become the most comprehensive private educational services provider in China in terms of service and product offerings, according to Frost & Sullivan. We are the largest private educational service provider in China in terms of total net revenue and network of schools and learning centers for the fiscal year ended May 31, 2020, according to the same source. As of May 31, 2020, we had accumulated over 55.4 million student enrollments since inception. We provide educational services primarily under our “New Oriental” brand, where we are the only Chinese education company awarded the “Top 50 Most Valuable Commercial Services Brands” in the world in 2020 published by Brand Finance, according to Frost & Sullivan.

Our education ecosystem

We have developed an integrated online to offline education ecosystem around our students, parents, and teachers, where we offer one-stop educational services with comprehensive services and products covering all core school subjects in all class formats. With our operating history of nearly 30 years, we have delivered educational services to students across two generations and have accumulated a large alumni network.

SUMMARY

Our educational services are delivered via our nationwide physical network of 104 schools, 1,361 learning centers and 12 bookstores primarily under our “New Oriental” brand across 91 cities in China as of May 31, 2020, as well as our online learning platforms under our “Koolearn,” “DFUB,” and “Donut” brands. The Amended Private Education Law passed in 2016 classifies private schools into for-profit private schools and non-profit private schools and requires the private schools established prior to the promulgation of the Amended Private Education Law to re-register as either a for-profit or non-profit private school. Other than certain of our kindergartens, and our compulsory-education schools (namely schools providing grade 1 to grade 9 formal education) that are required to be non-profit schools under the Amended Private Education Law, we intend to register all of our schools as for-profit private schools to the extent practicable under the relevant local rules and regulations.

We continuously evolve and optimize our business models to capture market opportunities, enhance our students’ learning experience, and optimize our operational efficiency. Our in-house-developed online-merge-offline (OMO) standardized digital classroom teaching system combines our offline education resources with advanced technologies and enables us to pioneer different teaching models, while Koolearn, our subsidiary, offers pure online classes. We also established a growth equity fund to capture investment opportunities in various education subsectors to create synergy with our existing businesses.

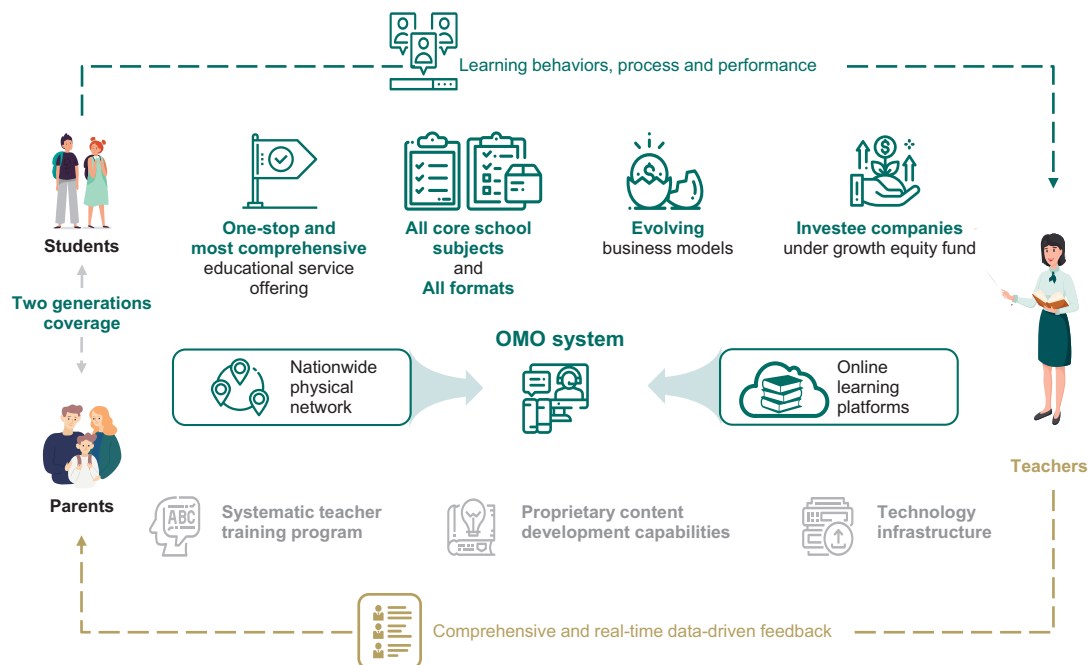
Our in-house-developed OMO system incorporates a comprehensive set of technologies, methodologies, and initiatives centering around the digital classroom teaching system. With the OMO system, all of our offline teaching expertise, materials, and resources are digitalized, centralized and analyzed, and can be applied across our educational service offerings. Data on students’ learning behaviors, progress and performance from all terminals of the teaching process are collected and analyzed to generate customized teaching content and services for each student. The data analysis also helps teachers prepare their lessons, both those delivered online and offline, helping to standardize and structure lesson content. Based on our rich database, teaching materials can be generated automatically and tailored to the needs of the specific classes. The continued accumulation of data enables us to develop new teaching services, which in turn feeds new data back into the system. We believe this integration of online and offline education through our OMO system enables us to adapt quickly to the constantly evolving private education industry trends and competitive landscape, such as by realizing and addressing unmet customer demand with new innovative offerings.

We first introduced the OMO standardized digital classroom teaching system in 2014, after which we constantly expanded the system’s application scenarios and added new features and technologies such as interactive Q&A machines and visible progress system in 2014, big data analytics technology in 2016, and English speech recognition and assessment in 2017. We also engaged in innovative initiatives to refine our business model to adapt to changing customer needs, such as systematic teacher training programs in 2012 and a location-based live and interactive tutoring service introduced in 2017. The adoption of these innovative features improved student experience by offering better learning experience and enhanced efficiency, which led to growth in student enrollment. Such adoption led to our success from fiscal year ended May 31, 2015 to fiscal year ended May 31, 2020 as demonstrated by increases in total net revenue from US\$1,246.8 million to US\$3,578.7 million, total student enrollments in K-12 AST, test preparation, and other courses increased from approximately 2.9 million to approximately 10.6 million, and K-12 AST student enrollment from approximately 1.9 million to approximately 9.7 million.

SUMMARY

R&D is very crucial in driving our business growth and expansion initiatives and improving student experience. We have focused our R&D efforts on (i) product and content developments such as developing and editing educational materials for our courses, and to cater to online and offline education methods and (ii) upgrading our technology platforms and broadening the usage of online tools and content in the in-house OMO system for all business lines throughout the entire network. We established New Oriental AI Research (NAIR) Academy in July 2018. The NAIR was founded with a commitment to innovative AI research in education. Leveraging the strong research capabilities of the NAIR, we have launched a series of AI-related products and services including AI teaching assistant to further improve the learning experience and teaching quality before, during and after each class.

At the core of our education ecosystem are our high quality teachers and systematic teacher selection, training and retention processes, our innovative and inspirational instruction approach, our original education content, and our proprietary technologies which are applied in multiple areas of our business operations, including student acquisition, learning content customization, real-time feedback to students and parents, and content and courseware development.



Our value propositions

To our students:

- Inspirational teaching approach to develop students' positive attitude and passion in learning
- Broad selection of courses spanning a student's education lifetime
- High quality and distinctive educational content

SUMMARY

- Access to high quality teachers
- Personalized and customized learning experience based on learning progress and feedback

To parents

- Comprehensive and real-time data-driven feedback on students
- Insightful tracking and monitoring of students' learning progress anywhere, anytime, which enable parents to tutor their children more efficiently
- Customized education solutions backed by our comprehensive services and products to suit the diversified education needs of students
- Comprehensive and systematic family education courses to help parents navigate through their children's growth and achieve good parenting and blissful families

To our teachers:

- Diversified and clear career path
- Systematic teacher training program with established framework of quality assurance development and continuous targeted professional development systems
- Effective technology-enabled teaching experience
- Exposure to a broad range of educational scenarios to enhance teaching experience
- Performance-based evaluation and incentive systems

Our educational service and product offerings

We are committed to offering comprehensive and high quality educational services and products to meet the evolving needs of students in each stage of their life (from kindergarten to adult), including K-12 after-school tutoring, overseas and domestic test preparation, language training for adults, pre-school, primary and secondary schools, education materials and distribution, online education, and other services.

Our scale

Our education ecosystem as a whole has achieved significant scale. Our total student enrollments in K-12 AST, test preparation, and other courses increased from approximately 6.3 million for the fiscal year ended

SUMMARY

May 31, 2018 to approximately 10.6 million for the fiscal year ended May 31, 2020, representing a CAGR of 29.7%. Our total net revenues increased from US\$2,447.4 million for the fiscal year ended May 31, 2018 to US\$3,578.7 million for the fiscal year ended May 31, 2020, representing a CAGR of 20.9%. Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders increased from US\$296.1 million in the fiscal year ended May 31, 2018 to US\$413.3 million in the fiscal year ended May 31, 2020, representing a CAGR of 18.1%.

STRENGTHS

We believe that the following strengths contribute to our success and are differentiating factors that set us apart from our competitors:

- The leading provider of private educational services in China
- Strong brand recognition
- Most comprehensive service and product offerings with life-long one-stop educational services solution
- Innovative online and offline integration powered by AI technology
- Systematic approach to hiring and training high quality teachers
- Superior content creation capabilities
- Visionary and experienced management team

OUR STRATEGIES

We intend to pursue the following strategies:

- Further solidify our market leadership
- Continue to expand content and service offerings with improving quality and enhance students' learning experience
- Continue to recruit, develop and retain teaching talents
- Further strengthen technology capabilities and continuously increase operational efficiency
- Selectively pursue strategic investments and partnerships

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The selected consolidated statements of operations and selected consolidated cash flow data for the years ended May 31, 2018, 2019 and 2020 and the selected consolidated balance sheet data as of May 31, 2018, 2019 and 2020 have been derived from our audited consolidated financial statements contained in the Accountant's Report in Appendix I. The selected consolidated statements of operations and selected consolidated cash flow data for the three months ended August 31, 2019 and 2020 and the selected consolidated balance sheet data as of August 31, 2020 have been derived from our unaudited interim condensed consolidated financial information contained in the Appendix IA and have been prepared on the same basis as our audited consolidated financial statements. Our consolidated financial statements have been prepared in accordance with U.S. GAAP.

Selected Consolidated Statements of Operations

	For the Years Ended May 31,			For the Three Months Ended August 31,	
	2018	2019	2020	2019	2020
				(unaudited)	(unaudited)
	(in thousands of US\$)				
Net revenues:					
Educational programs and services	2,165,152	2,785,254	3,230,378	996,532	935,587
Books and other services	282,278	311,237	348,304	75,245	50,779
Total net revenues	2,447,430	3,096,491	3,578,682	1,071,777	986,366
Operating cost and expenses ⁽¹⁾					
Cost of revenues	(1,065,740)	(1,376,269)	(1,588,899)	(440,229)	(464,866)
Selling and marketing	(324,249)	(384,287)	(445,259)	(101,193)	(116,883)
General and administrative	(794,482)	(1,034,028)	(1,145,521)	(284,159)	(254,312)
Total operating cost and expenses	(2,184,471)	(2,794,584)	(3,179,679)	(825,581)	(836,061)
Gain on disposal of a subsidiary	—	3,627	—	—	—
Operating income	262,959	305,534	399,003	246,196	150,305
Other income, net	94,065	10,315	88,833	8,671	62,818
Provision for income taxes:					
Current	(72,785)	(103,031)	(142,992)	(52,670)	(43,584)
Deferred	13,377	17,317	8,630	1,834	(15,538)
Provision for income taxes	(59,408)	(85,714)	(134,362)	(50,836)	(59,122)
(Loss) gain from equity method investments	(379)	(2,289)	1,385	(803)	(3,167)
Net income	297,237	227,846 ⁽²⁾	354,859	203,228	150,834
Less: Net income/(loss) attributable to non-controlling interests	1,107	(10,219)	(58,474)	(5,762)	(23,818)
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders	296,130	238,065	413,333	208,990	174,652

SUMMARY

Notes:

(1) Share-based compensation expenses are included in our operating cost and expenses as follows:

	For the Years Ended May 31,			For the Three Months Ended	
				August 31,	
	2018	2019	2020	2019	2020
				(unaudited)	(unaudited)
	(in thousands of US\$)				
Cost of revenues	—	134	2,224	36	1,483
Selling and marketing	—	1,205	4,227	365	2,597
General and administrative	57,443	69,997	55,606	10,619	11,753
Total	57,443	71,336	62,057	11,020	15,833

(2) The decrease in net income from the fiscal year ended May 31, 2018 to the fiscal year ended May 31, 2019 was primarily due to an increase in loss from fair value change of long-term investments in the fiscal year ended May 31, 2019 by US\$104.6 million, US\$96.6 million of which was from our investment in Sunlands, a company engaged in online education specific to vocational qualification training.

Selected Consolidated Balance Sheet Data

	As of May 31,			As of August 31,
	2018	2019	2020	2020
				(unaudited)
	(in thousands of US\$)			
Cash and cash equivalents	983,319	1,414,171	915,057	1,047,605
Short-term investments	1,623,763	1,668,689	2,318,280	2,778,408
Total current assets	2,941,914	3,466,242	3,756,420	4,384,425
Net current assets	1,191,030	1,460,018	1,277,056	1,607,067
Property and equipment, net	449,592	532,015	672,455	743,813
Long-term investments, net	433,333	404,704	431,101	434,756
Total assets	3,977,712	4,646,559	6,556,885	7,329,265
Total current liabilities	1,750,884	2,006,224	2,479,364	2,777,358
Total liabilities	1,763,017	2,121,462	3,687,074	4,180,190
Mezzanine equity	206,624	—	—	—
Total New Oriental Education & Technology Group Inc.				
shareholders' equity	1,991,589	2,360,686	2,733,295	3,025,064
Non-controlling interests	16,482	164,411	136,516	124,011
Total equity	2,008,071	2,525,097	2,869,811	3,149,075
Total liabilities, mezzanine equity and equity	3,977,712	4,646,559	6,556,885	7,329,265

SUMMARY

Selected Consolidated Cash Flow Data

	For the Years Ended May 31,			For the Three Months Ended	
				August 31,	
	2018	2019	2020	2019	2020
				(unaudited)	(unaudited)
	(in thousands of US\$)				
Net cash provided by operating activities ⁽¹⁾	781,127	805,648	804,455	364,569	391,598
Net cash used in investing activities	(407,143)	(574,712)	(1,256,370)	(775,229)	(468,904)
Net cash (used in) provided by financing activities ⁽¹⁾	(74,881)	266,649	(17,862)	1,569	175,853
Effect of foreign exchange rate changes	42,992	(66,123)	(29,026)	(32,253)	34,508
Net change in cash, cash equivalents and restricted cash	342,095	431,462	(498,803)	(441,344)	133,055
Cash, cash equivalents and restricted cash at beginning of the period	644,670	986,765	1,418,227	1,418,227	919,424
Cash, cash equivalents and restricted cash at end of the period	<u>986,765</u>	<u>1,418,227</u>	<u>919,424</u>	<u>976,883</u>	<u>1,052,479</u>

Note:

- (1) The reclassification of restricted cash in the cash flows in the year ended May 31, 2018 is due to the adoption of ASU 2016-18: Statement of Cash Flows by using the retrospective application.

See “Financial Information — Results of Operations”

OUR MAJOR SHAREHOLDERS

Mr. Michael Minhong Yu (“**Mr. Yu**”), our founder and executive Chairman, is interested in and controls, including through Tigerstep Developments Limited, an aggregate of 19,750,272 Shares, representing approximately 12.3% of our total issued share capital as at the Latest Practicable Date. As such, Mr. Yu, through Tigerstep Developments Limited, is our major shareholder.

See “Major Shareholders.”

VIE STRUCTURE

Due to legal restrictions and prohibitions on foreign investment in, among others, tutoring schools, especially tutoring schools that provide K-12 after-school education, we operate substantially all of our education business in China through the variable interest entities and their subsidiaries, with which we have contractual arrangements. We describe our VIE structure and the key terms of the agreements underlying the contractual arrangements in “History — Contractual Arrangements.” As a result, we are able to include the financial results

SUMMARY

of the variable interest entities and their subsidiaries into our Company's consolidated financial statements. Our VIE structure is grandfathered pursuant to Paragraph 4.4 of the Hong Kong Stock Exchange Guidance Letter GL94-18.

RISK FACTORS

Our business and the Global Offering involve certain risks and uncertainties, some of which are beyond our control and may affect your decision to invest in us and/or the value of your investment. See "Risk Factors" for details of our risk factors, which we strongly urge you to read in full before making an investment in our Shares. Some of the major risks we face include:

- If we are not able to continue to attract students to enroll in our courses without a significant decrease in course fees, our revenues may decline and we may not be able to maintain profitability;
- We depend on our dedicated and capable faculty, and if we are not able to continue to hire, train and retain qualified teachers, we may not be able to maintain consistent teaching quality throughout our school network and our brand, business and operating results may be materially and adversely affected;
- Our business depends on our "New Oriental" brand, and if we are not able to maintain and enhance our brand, our business and operating results may be harmed;
- Failure to effectively and efficiently manage the expansion of our school network may materially and adversely affect our ability to capitalize on new business opportunities; and
- If we fail to successfully execute our growth strategies, we may not be able to continue to attract students to enroll in our courses without a significant decrease in course fees, and our business and prospects may be materially and adversely affected.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$11,717.5 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK\$1,399.00 per Offer Share for both the Hong Kong Public Offering and the International Offering, and assuming that the Over-allotment Option is not exercised, or HK\$13,486.8 million if the Over-allotment Option is exercised in full. We plan to use the net proceeds we will receive from the Global Offering for the following purposes:

- (a) Approximately 40% (approximately HK\$4,687.0 million, assuming the Over-allotment Option is not exercised) to enhance students' learning experience, through our continuous innovation and investment in technologies, including big data analytics and AI technology, and improvements in the functions and efficiency of our OMO system and other learning platforms, such as our interactive

SUMMARY

Q&A machine, matrix of apps, visible progress system, Quality Assurance Development (QAD) system and computerized assessment testing system. We plan to invest in R&D technology and personnel to develop new innovative and interactive features and functions to enhance learning experience. We also plan to improve the personalized learning experience of our students by leveraging our technologies and data on students' learning behaviors, process and performance, for example, by enhancing our data analytics capabilities and the use of AI in analyzing students' learning progress to provide learning contents that cater to students' capabilities and learning progress, and further strengthen our in-house content development capabilities. We will continue to expand our course offerings and develop customized teaching content for students. Furthermore, we will continue to maintain high-quality teaching by investing in systematic teacher training programs, including developing training materials and online teacher training platforms, organizing teacher training activities, and enhancing our Quality Assurance Development system and Visible Progress System.

- (b) Approximately 30% (approximately HK\$3,515.2 million, assuming the Over-allotment Option is not exercised) for our business growth and geographic expansion. We plan to continue to expand our classroom capacities to support future growth through expanding our nationwide physical network of schools and learning centers. In determining the portion of net proceeds to be applied in this regard, we have taken into consideration the key costs for establishing new schools and learning centers, including amounts for lease and deposits to secure new premises, investments in equipment and leasehold improvements. We plan to increase our capacities in cities where we currently operate, and to a lesser extent, expand into new cities with unserved or underserved student demand for our education services. The locations of such premises will be subject to market research and due diligence.
- (c) Approximately 20% (approximately HK\$2,343.5 million, assuming the Over-allotment Option is not exercised) for strategic investments and acquisitions. We may consider potential strategic investments or acquisition opportunities of small to medium size companies that bring synergies to our existing businesses and ecosystem. We plan to selectively pursue investment or acquisition opportunities that specialize in certain areas of education content that allow us to expand and enhance our product and service offerings and strengthen our content development capabilities. We will also focus on companies with unique technologies that may enhance the features of our OMO system and other learning platforms. We have not identified any specific investments or acquisition opportunities at this time.
- (d) Approximately 10% (approximately HK\$1,171.7 million, assuming the Over-allotment Option is not exercised) for general corporate purposes and working capital needs.

See "Use of Proceeds" for details.

SUMMARY

THE LISTING

Our ADSs have been listed and traded on the NYSE since September 7, 2006. Dealings in our ADSs on the NYSE have been conducted in U.S. dollars. We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers) of the Hong Kong Listing Rules. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars. Our Shares will be traded on the Hong Kong Stock Exchange in board lots of 10 Shares. For additional information, see “Information about This Document and the Global Offering.”

WAIVERS AND EXEMPTIONS

As we are applying for listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the SFO, and a ruling under the Takeovers Codes. For additional information, see “Waivers and Exemptions.”

We enjoy exemptions from certain obligations under U.S. securities laws and the NYSE rules as a foreign private issuer as defined under the U.S. Exchange Act. Investors should exercise care when investing in our Shares and/or ADSs. See “Information about This Document and the Global Offering — Summary of Exemptions as a Foreign Private Issuer in the U.S.”

ARTICLES OF ASSOCIATION

We are an exempted company continued and registered in the Cayman Islands with limited liability and our affairs are governed by our Articles of Association, the Cayman Companies Law, as well as the common law of the Cayman Islands. The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong. As such, we have applied for, and the Hong Kong Stock Exchange has granted us, among others, a waiver from strict compliance with: (a) Rule 19C.07(3) of the Hong Kong Listing Rules, which requires that the appointment, removal and remuneration of auditors must be approved by a majority of a listed company’s members or other body that is independent of the listed company’s board of directors; and (b) Rule 19C.07(7) of the Hong Kong Listing Rules, on the condition that, (i) we put forth a resolution at the next annual general meeting in 2021 after the Listing (the “**2021 AGM**”) to revise our Articles of Association, so that we are required to convene an annual general meeting each year, required to provide at least 14 days’ notice for any general meetings, the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in our share capital; (ii) our ultimate substantial shareholder will provide an irrevocable undertaking to the Company to cause the voting rights of Mr. Yu and Tigerstep Developments Limited to vote in favor of the proposed resolution outlined above; (iii) the board of directors will undertake to the Company that it will convene a general meeting at the request of

SUMMARY

shareholders holding not less than 10% of the voting rights if so requested before the 2021 AGM and our ultimate substantial shareholder will to the extent that he continues to control 10% or more of our voting capital put forth the proposed resolution at the next annual general meeting in 2022 if the proposed resolution is not approved by the shareholders at the 2021 AGM; and (iv) we will issue a press release announcing the board of directors' support publicly for the proposed resolution prior to the 2021 AGM. See "Risk Factors — Risks Related to our Shares, our ADSs and the Listing — Since we are a Cayman Islands exempted company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States or Hong Kong." See "Information about This Document and the Global Offering" and "Waivers and Exemptions — Shareholder Protection Requirements."

OFFERING STATISTICS

	Based on the indicative offer price per Offer Share of HK\$1,399.00 for Both Hong Kong Public Offering and International Offering
Our market capitalization ⁽¹⁾	HK\$236,276.3 million
Unaudited pro forma adjusted net tangible assets per Share ⁽²⁾	US\$24.87 or HK\$192.75

Notes:

- (1) The calculation of market capitalization is based on 168,889,387 Shares that will be in issue immediately following the Global Offering, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted shares or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.
- (2) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 167,050,080 Shares that will be in issue assuming that the Global Offering have been completed on May 31, 2020, without taking into account any allotment and issuance of Shares upon exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted shares or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs that we may make.

DETERMINATION OF OFFER PRICE

We will determine the pricing for the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about Tuesday, November 3, 2020 and, in any event, no later than Friday, November 6, 2020, by agreement with the Joint Representatives (for themselves and on behalf of the Underwriters).

SUMMARY

We will determine the Public Offer Price by reference to, among other factors, the closing price of the ADSs on the New York Stock Exchange on the last trading day on or before the Price Determination Date, and the Public Offer Price will not be more than HK\$1,399.00 per Hong Kong Offer Share. The historical prices of our ADSs and trading volume on the New York Stock Exchange are set out below.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>ADTV</u>
	(US\$)	(US\$)	(million ADSs) ⁽¹⁾
Fiscal year ended May 31, 2020	141.76	87.98	1.31
Fiscal year of 2020 (up to the Latest Practicable Date)	175.98	122.00	1.01

Note:

(1) Average daily trading volume (“ADTV”) represents daily average number of our ADSs traded over relevant period.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book-building process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

LISTING EXPENSES

We expect to incur listing expenses of approximately HK\$188.0 million after May 31, 2020, representing approximately 1.6% of the gross proceeds (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK\$1,399.00 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect most of the listing expenses will be recorded as a deduction in equity directly.

MATERIAL ADVERSE CHANGE

Our directors confirm that, up to the date of the Prospectus, there has been no material adverse change in our financial or trading position since May 31, 2020 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there has been no event since May 31, 2020 that would materially affect the information shown in our consolidated financial statements included in the Accountants’ Report in Appendix I.

SUMMARY

IMPACT OF COVID-19 AND RECENT DEVELOPMENT

The outbreak of COVID-19 pandemic around the globe has had and is expected to continue to have an impact on our operations and financial performance. Our student acquisition efforts were affected, and the enrollment for summer courses were delayed. While our K-12 after-school tutoring courses experienced continued growth, our overseas related businesses, including test preparation and consulting services, have been negatively affected due to cancelation of overseas exams and restrictions on travels. In the fourth fiscal quarter of the fiscal year 2020, we generated net revenues of US\$798.5 million, representing a 5.3% decrease year-over-year. Our net revenues from educational programs and services for the fourth fiscal quarter of the fiscal year 2020 were US\$664.9 million, representing a 7.3% decrease year-over-year.

The COVID-19 outbreak has caused and may continue to cause us to implement temporary adjustments to our operations. From the end of January 2020, we stopped the operation of all learning centers nationwide and moved our offline classes to small size online live broadcasting classes through the in-house developed OMO (online-merge-offline) system, which has played a fundamental role in reducing the impact of the COVID-19 outbreak on our services and operation. However, we still experienced higher refund rates from cancelation and deferments of our courses in January 2020 and challenges in acquiring new students in the third and the fourth fiscal quarters of the fiscal year 2020 as compared to the same quarters in the fiscal year 2019. Our total student enrollments in K-12 AST, test preparation, and other courses in the third fiscal quarter of 2020 experienced an increase of 2.3% year-over-year to approximately 1.6 million, which is lower than our historical increase in student enrollments for the same period, and our total student enrollments in K-12 AST, test preparation, and other courses in the fourth fiscal quarter of 2020 experienced a 6.2% year-over-year decrease to approximately 2.6 million. We have gradually resumed our offline operations from June 2020 and our student enrollments have since experienced recovery in growth. As of the Latest Practicable Date, all our offline operations have already resumed. Despite the dampened growth in student enrollments in the third and fourth fiscal quarters of the fiscal year 2020, our student enrollments in K-12 AST, test preparation, and other courses increased from approximately 8.4 million in the fiscal year 2019 to approximately 10.6 million in the fiscal year of 2020. Net revenues from our educational programs and services increased by 16.0% from US\$2,785.3 million for the fiscal year 2019 to US\$3,230.4 million for the fiscal year 2020. Our total net revenues decreased by 8.0% from US\$1,071.8 million in the three months ended August 31, 2019 to US\$986.4 million in the three months ended August 31, 2020. Net revenues from our educational programs and services decreased by 6.1% from US\$996.5 million in the three months ended August 31, 2019 to US\$935.6 million in the three months ended August 31, 2020. Our net income in the three months ended August 31, 2020 was US\$150.8 million, compared to US\$203.2 million in the three months ended August 31, 2019. Student enrollments in our K-12 AST, test preparation, and other courses increased by 13.5% from approximately 2,609,200 for the three months ended August 31, 2019 to approximately 2,961,100 for the three months ended August 31, 2020. The total number of schools and learning centers was 1,472 as of August 31, 2020. The total number of schools was 112 as of August 31, 2020. Despite the negative impact on our results of operations, our Directors believe that the COVID-19 outbreak has not had a material adverse impact on our company. However, the COVID-19 outbreak may continue to affect our business operations and financial condition for the fiscal year 2021. We prioritize the health and safety of our students and employees and have taken various measures to reduce the impact of the COVID-19 outbreak, including strictly implementing compulsory face mask and social distancing requirements and enhancing disinfection measures at our premises.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set out below.

“2019 PRC Foreign Investment Law”	the <i>PRC Foreign Investment Law</i> (《中華人民共和國外商投資法》), promulgated by the National People’s Congress in March 2019, which became effective on January 1, 2020
“ADS(s)”	Our American Depositary Shares (each ADS representing one Share)
“Articles” or “Articles of Association”	our amended and restated articles of association (as amended from time to time), adopted by a special resolution passed on August 25, 2006, a summary of which is set out in Appendix III
“Beijing Decision”	Beijing Decision Education & Consulting Co., Ltd. (北京鼎事興教育諮詢有限公司), a company established under the laws of the PRC on April 20, 2005 and one of our Significant Subsidiaries
“Beijing Hewstone”	Beijing Hewstone Technology Co., Ltd. (北京砍石高科技有限公司), a company established under the laws of the PRC on April 20, 2005 and one of our Significant Subsidiaries
“Beijing Pioneer”	Beijing Pioneer Technology Co., Ltd. (北京開拓鴻業高科技有限公司), a company established under the laws of the PRC on January 8, 2009 and one of our Significant Subsidiaries
“Beijing Smart Wood”	Beijing Smart Wood Software Technology Co., Ltd. (北京智愚嘉業軟件科技有限公司), a company established under the laws of the PRC on December 21, 2011, and one of our Significant Subsidiaries
“Beijing Xuncheng”	Beijing New Oriental Xuncheng Network Technology Co., Ltd. (北京新東方迅程網絡科技股份有限公司), a company established under the laws of the PRC on March 11, 2005, our variable interest entity and one of our Significant Subsidiaries
“board” or “board of directors”	our board of directors
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong or other relevant jurisdictions are generally open for business
“BVI”	British Virgin Islands

DEFINITIONS

“Cayman Companies Law”	the <i>Companies Law</i> , Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Century Friendship”	Beijing Century Friendship Education Investment Co., Ltd. (北京世紀友好教育投資有限公司), a company established under the laws of the PRC on July 19, 2002 and the equity holder of New Oriental China
“China” or “the PRC”	the People’s Republic of China, excluding, for the purposes of this document only, Taiwan and the special administrative regions of Hong Kong and Macau, except where the context otherwise requires

DEFINITIONS

“Companies Ordinance”	the <i>Companies Ordinance</i> (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the <i>Companies (Winding Up and Miscellaneous Provisions) Ordinance</i> (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Company,” “our Company,” “we” or “us”	New Oriental Education & Technology Group Inc., a company first incorporated in the BVI on August 18, 2004 and subsequently redomiciled to and continued in the Cayman Islands on March 16, 2006 as an exempted company under the laws of the Cayman Islands with limited liability and, where the context requires, its subsidiaries (which includes the consolidated affiliated entities) from time to time
“controlling shareholder(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Deposit Agreement”	the deposit agreement, dated as of September 12, 2006, as amended, among us, Deutsche Bank Trust Company Americas and our ADS holders and beneficial owners from time to time
“Dexin Dongfang”	Beijing Dexin Dongfang Network Technology Co., Ltd. (北京德信東方網絡科技有限公司), a company established under the laws of the PRC on March 21, 2018 and one of our Significant Subsidiaries
“director(s)”	member(s) of our board
“DTC”	The Depository Trust Company, the central book-entry clearing and settlement system for equity securities in the United States and the clearance system for our ADSs
“EIT”	enterprise income tax
“Elite Concept”	Elite Concept Holdings Limited, a company incorporated under the laws of Hong Kong on December 3, 2007 and one of our Significant Subsidiaries
“Extreme Conditions”	any extreme conditions or events, the occurrence of which causes interruption to the ordinary course business operations in Hong Kong and/or that may affect the Price Determination Date or the Listing Date

DEFINITIONS

“foreign private issuer”	as such term is defined in Rule 3b-4 under the U.S. Exchange Act
“FY”	financial year ended or ending May 31
“FY 2018”	the 12 months ended May 31, 2018 i.e., the 12 months from June 1, 2017 to May 31, 2018
“FY 2019”	the 12 months ended May 31, 2019 i.e., the 12 months from June 1, 2018 to May 31, 2019
“FY 2020”	the 12 months ended May 31, 2020 i.e., the 12 months from June 1, 2019 to May 31, 2020
“FY 2021”	the 12 months ending May 31, 2021 i.e., the 12 months from June 1, 2020 to May 31, 2021
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “the Group”, “we”, “us”, or “our”	our Company and our subsidiaries (including the consolidated affiliated entities) from time to time
“HK\$” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the <i>Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited</i> , as amended or supplemented from time to time
“Hong Kong Offer Price”	the final offer price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)

DEFINITIONS

“Hong Kong Offer Shares”	the Shares offered pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Hong Kong Offer Price on the terms and conditions described in this document
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated October 28, 2020, relating to the Hong Kong Public Offering and entered into by, among others, the Hong Kong Underwriters and us
“independent director(s)”	our directors who are “independent” under applicable U.S. regulations and considered “independent non-executive directors” for the purpose of Rule 3.10 of the Hong Kong Listing Rules
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected (within the meaning of the Listing Rules) with our Company
“International Offer Price”	the final offer price per International Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
“International Offer Shares”	the Shares offered pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by us pursuant to the exercise of the Over-allotment Option
“International Offering”	the offer of the International Offer Shares at the International Offer Price pursuant to the shelf registration statement on Form F-3 that was filed with the SEC and became effective on October 23, 2020 and the preliminary prospectus supplement filed on October 28, 2020 and the final prospectus supplement to be filed with the SEC on or about November 3, 2020

DEFINITIONS

“International Underwriters”	the group of underwriters, led by the Joint Representatives, that expects to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, the Joint Representatives, the International Underwriters and us on or about November 3, 2020
“Joint Bookrunners”	the joint bookrunners as named in “Directors and Parties Involved in the Global Offering”
“Joint Global Coordinators”	the joint global coordinators as named in “Directors and Parties Involved in the Global Offering”
“Joint Lead Managers”	the joint lead managers as named in “Directors and Parties Involved in the Global Offering”
“Joint Policy Statement”	the Joint Policy Statement Regarding the Listing of Overseas Companies jointly issued by the Hong Kong Stock Exchange and the SFC on September 27, 2013
“Joint Representatives”	the joint representatives as named in “Directors and Parties involved in the Global Offering”
“Joint Sponsors”	the Joint Sponsors of the listing of the Shares on the Main Board of the Hong Kong Stock Exchange as named in “Directors and Parties Involved in the Global Offering”
“Koolearn”	Koolearn Technology Holding Limited, a limited liability company established under the laws of the Cayman Islands on February 7, 2018 and listed on the Main Board on the Hong Kong Stock Exchange with stock code 1797 and one of our Significant Subsidiaries
“Latest Practicable Date”	October 21, 2020, being the latest practicable date prior to the date of this document for the purpose of ascertaining certain information contained in this document
“Law(s)”	all laws, statutes, legislation, ordinances, rules, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any Governmental Authority (including, without limitation, the Stock Exchange and the SFC) of all relevant jurisdictions

DEFINITIONS

“Listing”	the listing we are seeking on the Hong Kong Stock Exchange under Chapter 19C of the Hong Kong Listing Rules
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about November 9, 2020 on which the Shares are listed on Main Board and from which dealings in the Shares are permitted to commence on the Main Board
“Main Board”	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“Memorandum” or “Memorandum of Association”	our amended and restated memorandum of association (as amended from time to time), adopted by a special resolution passed on August 25, 2006, a summary of which is set out in Appendix III to this document
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Negative List”	the <i>Special Administrative Measures (Negative List) for Foreign Investment Access</i> , most recently jointly promulgated by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國發展和改革委員會) on June 23, 2020 and which became effective on July 23, 2020, as amended, supplemented or otherwise modified from time to time
“New Oriental China”	New Oriental Education & Technology Group Co., Ltd. (新東方教育科技集團有限公司), formerly known as Beijing New Oriental Education & Technology (Group) Co., Ltd. (北京新東方教育科技(集團)有限公司), a company established under the laws of the PRC on August 2, 2001, our variable interest entity and one of our Significant Subsidiaries
“NYSE”	the New York Stock Exchange
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares that we may issue pursuant to the exercise of the Over-allotment Option

DEFINITIONS

“Over-allotment Option”	the option we expect to grant to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) under the International Underwriting Agreement, which may require us to allot and issue up to an aggregate of 1,276,500 additional Shares at the International Offer Price to, among other things, cover over-allocations in the International Offering, if any
“PCAOB”	the Public Company Accounting Oversight Board
“PFIC”	passive foreign investment company
“PRC Company Law”	the <i>Company Law of the PRC</i> (《中華人民共和國公司法》), enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, and most recently amended on October 26, 2018, and as amended, supplemented or otherwise modified from time to time
“PRC Legal Adviser”	Tian Yuan Law Firm, our legal adviser as to the laws of the PRC
“Price Determination Agreement”	the agreement to be entered into by the Joint Representatives (for themselves and on behalf of the Underwriters) and us on the Price Determination Date to record and fix the pricing of the Offer Shares
“Price Determination Date”	the date, expected to be on or about November 3, 2020, on which the International Offer Price and Hong Kong Offer Price will be determined, or such later time as the Joint Representatives (for themselves and on behalf of the Underwriters) and we may agree, but in any event, not later than November 6, 2020
“Principal Share Registrar”	Conyers Trust Company (Cayman) Limited, our share registrar in the Cayman Islands
“Public Offer Price”	the final offer price per Hong Kong Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%)
“Qualifying Issuer”	has the meaning given to it under Chapter 19C of the Hong Kong Listing Rules
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Relevant Persons”	the Joint Sponsors, the Joint Representatives, Underwriters, any of their or the Company’s respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), currently known as SAMR
“SAMR”	State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“SEC”	the United States Securities and Exchange Commission
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the <i>Securities and Futures Ordinance</i> (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shanghai Smart Words”	Shanghai Smart Words Software Technology Company Limited (上海智言軟件科技有限公司), a company established under the laws of the PRC on December 8, 2010 and one of our former subsidiaries and has been dissolved in August 2019
“Share(s)”	common share(s) in our share capital with par value of US\$0.01 each
“Share Incentive Plans”	the 2006 Share Incentive Plan and the 2016 Share Incentive Plan summarized in “Directors and Senior Management — Share Incentive Plans,” and any other share incentive plans adopted by the Company from time to time
“shareholder(s)”	holder(s) of Shares and, where the context requires, ADSs
“Significant Subsidiaries”	our subsidiaries and consolidated affiliated entities as identified in “History — History and Development — Significant Subsidiaries”

DEFINITIONS

“Smart Shine”	Smart Shine International Limited, a company incorporated under the laws of Hong Kong on December 9, 2008 and one of our Significant Subsidiaries
“Stabilizing Manager”	Credit Suisse (Hong Kong) Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or around the Price Determination Date between Tigerstep Developments Limited and the Stabilizing Manager
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Hong Kong Listing Rules and includes the consolidated affiliated entities and variable interest entities
“Takeovers Codes”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC
“Track Record Period”	the years ended May 31, 2018, 2019 and 2020
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Exchange Act”	the <i>United States Securities Exchange Act of 1934</i> , as amended, and the rules and regulations promulgated thereunder
“U.S. GAAP”	accounting principles generally accepted in the United States
“U.S. Securities Act”	the <i>United States Securities Act of 1933</i> , as amended, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“variable interest entities,” “VIE” or “VIEs”	our variable interest entities, or any one of them, the financial results of which are consolidated into our consolidated financial statements as if they were our subsidiaries

DEFINITIONS

“VAT”	value-added tax; all amounts are exclusive of VAT in this document except where indicated otherwise
“VIE equity holder(s)”	the individual or ultimate shareholders of the variable interest entities
“VIE structure” or “Contractual Arrangements”	variable interest entity structure, and where the context requires, and the agreements underlying it
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the White Form eIPO Service Provider, www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Winner Park Limited”	Winner Park Limited, a company incorporated under the laws of Hong Kong on December 9, 2008 and one of our Significant Subsidiaries
“Zhuhai Chongsheng”	Zhuhai Chongsheng Heli Network Technology Company Limited (珠海崇勝合力網絡科技有限公司), a company established under the laws of the PRC on July 23, 2019

In this document, the terms “associate(s),” “close associate(s),” “controlling shareholder(s),” “core connected person(s)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

Unless otherwise expressly stated or the context otherwise requires, all data in this document is as of the date of this document.

The English names of PRC entities, PRC laws or regulations, and PRC governmental authorities referred to in this document are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

GLOSSARY

The following is a glossary of certain terms used in this document in connection with us and/or our business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“ACT”	American College Test, a standardized test primarily used for college admissions in the United States, currently consisting of subject area tests in English, mathematics, reading and science
“CET 4”	College English Test Level 4, a national English as a foreign language test in the PRC, mainly provided to college students
“CET 6”	College English Test Level 6, a national English as a foreign language test in the PRC, mainly provided to college students
“GMAT”	Graduate Management Admission Test, a standardized test intended to assess analytical, writing, quantitative, verbal and reading skills in written English, primarily for use in admission to graduate programs in business or management in the United States and some other countries
“GRE”	Graduate Record Examinations, a standardized test administered by ETS, intended to measure verbal reasoning, quantitative reasoning and analytical writing skills, primarily for use in admission to graduate schools in the United States and some other countries
“IELTS”	International English Language Testing System, a standardized test of English language proficiency for non-native English language speakers, jointly administered by the British Council and certain other entities
“LSAT”	Law School Admission Test, a standardized test administered by the Law School Admission Council, intended to assess reading comprehension and logical and reasoning proficiency, primarily for use in law school admissions in the United States and some other countries
“SAT”	SAT College Entrance Test, a standardized test intended to measure verbal reasoning, quantitative reasoning and analytical writing skills, primarily for use in college admissions in the United States
“TOEFL”	Test of English as a Foreign Language, a standardized test of English language proficiency for non-native English language speakers, administered by ETS

FORWARD-LOOKING STATEMENTS

Certain statements in this document are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as “will,” “expect,” “anticipate,” “estimate,” “believe,” “going forward,” “ought to,” “may,” “seek,” “should,” “intend,” “plan,” “projection,” “could,” “vision,” “goals,” “aim,” “aspire,” “objective,” “target,” “schedules” and “outlook”) are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this document), uncertainties and other factors some of which are beyond our Company’s control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in “Risk Factors.”

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as at the date on which such statement is made, and, except as required by the Hong Kong Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our directors are made as at the date of this document. Any such intentions may change in light of future developments.

All forward-looking statements in this document are expressly qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information set out in this document before making an investment in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the Global Offering. You should pay particular attention to the fact that we are a company continued and registered in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

RISKS RELATED TO OUR BUSINESS

If we are not able to continue to attract students to enroll in our courses without a significant decrease in course fees, our revenues may decline and we may not be able to maintain profitability.

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

We depend on our dedicated and capable faculty, and if we are not able to continue to hire, train and retain qualified teachers, we may not be able to maintain consistent teaching quality throughout our school network and our brand, business and operating results may be materially and adversely affected.

Our teachers are critical to maintaining the quality of our programs, services and products and maintaining our brand and reputation. It is critical for us to continue to attract qualified teachers who have a strong command of the subject areas to be taught and meet our qualification. We also need to hire teachers who are capable of delivering innovative and inspirational instruction. The number of teachers in China with the necessary experience and language proficiency to teach our courses is limited and we must provide competitive compensation packages to attract and retain qualified teachers. In addition, criteria such as commitment and dedication are difficult to ascertain during the recruitment process, in particular as we continue to expand and add teachers to meet rising student enrollments. We must also provide continuous training to our teachers so that they can stay up to date with changes in student demands, admissions and assessment tests, admissions standards, school curriculum, and other key trends necessary to effectively teach their respective courses. We may not be able to hire, train and retain enough qualified teachers to keep pace with our anticipated growth while maintaining consistent teaching quality across our education services in different geographic locations. In addition, PRC laws and regulations may require our teachers to have requisite licenses. For example, teachers in kindergartens and primary and secondary schools are required to obtain the teacher licenses. The State Council Circular 80 and the Online Tutoring Opinion further require teachers in training schools to apply for teacher

RISK FACTORS

licenses, if they teach certain academic subjects in the primary and secondary education stage. After the promulgation of the State Council Circular 80 and the Online Tutoring Opinion, we have urged all teachers without teacher licenses to register for teacher license examinations. As of the Latest Practicable Date, the vast majority of our teachers teaching academic subjects in the primary and secondary education stage have obtained the requisite teacher licenses. However, there are still a small number of our teachers that have not yet obtained their teacher licenses due to various reasons, such as the time gap between the recruitment and the newly-recruited teachers taking the exam and ultimately obtaining the teacher license, and the cancellation of teacher license examinations in the first half of 2020 due to COVID-19. If some of our teachers, due to various reasons, are unable to apply for and obtain the requisite teaching licenses on a timely basis, or at all, we may be required to rectify such non-compliance and may not be able to continue to retain such teachers. Shortages of qualified teachers or decreases in the quality of our instruction, whether actual or perceived, in one or more of our markets may have a material and adverse effect on our business. See “Regulations — Regulation Relating to Teachers” for more information.

Our business depends on our “New Oriental” brand, and if we are not able to maintain and enhance our brand, our business and operating results may be harmed.

We believe that market awareness of our “New Oriental” brand has contributed significantly to the success of our business. We also believe that maintaining and enhancing the “New Oriental” brand is critical to maintaining our competitive advantage. We offer a diverse set of programs, services and products to student populations of all ages across China. As we continue to grow in size, expand our program, service and product offerings and extend our geographic reach, maintaining quality and consistency may be more difficult to achieve.

We have mainly relied on word-of-mouth referrals to attract prospective students. We also use various marketing and promotion activities, such as summer promotion programs, online demo courses, social media promotions and outdoor advertising campaigns to promote our brand and course offerings. We cannot, however, assure you that these or our other marketing efforts will be successful in promoting our brand to remain competitive. If we are unable to further enhance our brand recognition and increase awareness of our programs, services and products, or if we incur excessive marketing and promotion expenses, our business and results of operations may be materially and adversely affected. In addition, any negative publicity relating to our company or our programs and services, regardless of its veracity, could harm our brand image and in turn materially and adversely affect our business and operating results.

Failure to effectively and efficiently manage the expansion of our school network may materially and adversely affect our ability to capitalize on new business opportunities.

We have increased the number of our schools in China from 25 as of May 31, 2006 to 104 as of May 31, 2020, and the number of our learning centers in China from 86 as of May 31, 2006 to 1,361 as of May 31, 2020. We may continue to expand our operations in different geographic locations in China. Our expansion has resulted, and will continue to result, in substantial demands on our management, faculty and operational, technological and other resources. Our expansion will also place significant demands on us to maintain the consistency of our teaching quality and our culture to ensure that our brand does not suffer as a result of any

RISK FACTORS

decreases, whether actual or perceived, in our teaching quality. To manage and support our growth, we must continue to improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain additional qualified teachers, management personnel and other administrative and sales and marketing personnel, particularly as we expand into new markets. We cannot assure you that we will be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified teachers and management personnel and integrate new schools and learning centers into our operations. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse impact on our financial condition and results of operations.

If we fail to successfully execute our growth strategies, we may not be able to continue to attract students to enroll in our courses without a significant decrease in course fees, and our business and prospects may be materially and adversely affected.

Our growth strategies include expanding our program, service and product offerings and our network of schools, learning centers and bookstores, updating and expanding the content of our programs, services and products in a cost-effective and timely manner, as well as maintaining and continuing to establish strategic relationships with complementary businesses. The expansion of our programs, services and products in terms of types of offerings and geographic locations may not succeed due to competition, failure to effectively market our new programs, services and products and maintain their quality and consistency, or other factors. In addition, we may be unable to identify new cities with sufficient growth potential to expand our network, and we may fail to attract students and increase student enrollments or recruit, train and retain qualified teachers for our new schools and learning centers. Some cities in China have undergone development and expansion for several decades while others are still at an early stage of urbanization and development. In more developed cities, it may be difficult to increase the number of schools and learning centers because we and/or our competitors already have extensive operations in these cities. In recently developed and developing cities, demand for our programs, services and products may not increase as rapidly as we expect. Furthermore, we may be unable to develop or license additional content on commercially reasonable terms and in a timely manner, or at all, to keep pace with changes in market demands. If we fail to successfully execute our growth strategies, we may not be able to continue to attract students to enroll in our courses without a significant decrease in course fees, and our business and prospects may be materially and adversely affected.

We may not be able to achieve the benefits we expect from recent and future acquisitions, and recent and future acquisitions may have an adverse effect on our ability to manage our business.

As part of our business strategy, we have pursued and intend to continue to pursue selective strategic acquisitions of businesses that complement our existing businesses. Acquisitions expose us to potential risks, including risks associated with the diversion of resources from our existing businesses, difficulties in successfully integrating the acquired businesses, failure to achieve expected growth by the acquired businesses and an inability to generate sufficient revenue to offset the costs and expenses of acquisitions. If the revenue and cost synergies that we expect to achieve from our acquisitions do not materialize, we may have to recognize impairment charges.

RISK FACTORS

If any one or more of the aforementioned risks associated with acquisitions materialize, our acquisitions may not be beneficial to us and may have a material adverse effect on our business, financial condition and results of operations.

Third parties have in the past brought intellectual property infringement claims against us based on the content of the books and other teaching or marketing materials that we or our teachers authored and/or distributed and may bring similar claims against us in the future.

We may be subject to claims by educational institutions and organizations, content providers and publishers, competitors and others on the ground of intellectual property rights infringement, defamation, negligence or other legal theories based on the content of the materials that we or our teachers author and/or distribute as course materials. These types of claims have been brought, sometimes successfully, against print publications and educational institutions in the past, including ourselves. For example, in January 2001, the Graduate Management Admission Council, or GMAC, and Educational Testing Service, or ETS, filed three separate lawsuits against us in the Beijing No. 1 Intermediate People's Court, alleging that we had violated the copyrights and trademarks relating to the GMAT test owned by GMAC and relating to the GRE and TOEFL tests owned by ETS by duplicating, selling and distributing their test materials without their authorization. In September 2003, the trial court found that we had violated GMAC's and ETS' respective copyrights and trademarks in connection with those admissions tests. The trial court's judgment was partially affirmed in a final judgment issued by the Beijing Higher People's Court in December 2004. The Beijing Higher People's Court held that we had not misused the trademarks of GMAC or ETS. However, it also found that the TOEFL and GRE tests were the original works of ETS and the GMAT test was the original work of GMAC, all of which are protected under the PRC Copyright Law (《中華人民共和國著作權法》). The Beijing Higher People's Court held that our duplication, sale and distribution of the test materials relating to these tests without ETS' and GMAC's prior permission were not a "reasonable use" of the test materials under the PRC Copyright Law (《中華人民共和國著作權法》), and that we, therefore, had infringed upon ETS' and GMAC's respective copyrights. We were ordered to pay damages in an aggregate of approximately RMB6.5 million, cease all infringing activities and destroy all copyright-infringing materials in our possession, all of which we have done. Since the Beijing Higher People's Court issued the final judgment in 2004, we have endeavored to comply with the court order and applicable PRC laws and regulations relating to intellectual property, and we have adopted policies and procedures to prohibit our employees and contractors from engaging in any copyright, trademark or trade name infringing activities. However, we cannot assure you that every teacher or other personnel will strictly comply with these policies at our schools, learning centers or other locations or media through which we provide our programs, services and products.

In order to develop, improve, promote and deliver new products and services, we cooperate with various leading international education content providers and are required to obtain licenses from others from time to time. For example, we have worked with Cambridge University Press, Oxford University Press, Educational Testing Service, Cengage Learning, the Northern Consortium (NCUK) and other education content providers in distributing their education material in China. With access to such high-quality education content, we further develop localized products that best serve the needs for millions of students and families in the China market. There can be no assurance that we will be able to continue to obtain licenses on commercially reasonable terms or at all or that rights granted under any licenses will be valid and enforceable.

RISK FACTORS

We have been involved in other claims and legal proceedings against us relating to infringement of third parties' copyrights in materials distributed by us and the unauthorized use of a third party's name in connection with the marketing and promotion of our programs, and may be subject to further claims in the future, particularly in light of the uncertainties in the interpretation and application of intellectual property laws and regulations. Furthermore, if printed publications or other materials that we or our teachers author and/or distribute contain materials that government authorities find objectionable, these publications may have to be recalled, which could result in increased expenses, loss in revenues and adverse publicity. Any claims against us, with or without merit, could be time-consuming and costly to defend or litigate, divert our management's attention and resources or result in the loss of goodwill associated with our brand. If a lawsuit against us is successful, we may be required to pay substantial damages and/or enter into royalty or license agreements that may not be based upon commercially reasonable terms, or we may be unable to enter into such agreements at all. We may also lose, or be limited in, the rights to offer some of our programs, services and products or be required to make changes to our course materials or websites. As a result, the scope of our course materials could be reduced, which could adversely affect the effectiveness of our teaching, limit our ability to attract new students, harm our reputation and have a material adverse effect on our results of operations and financial position.

We may lose our competitive advantage and our reputation, brand and operations may suffer if we fail to prevent the loss or misappropriation of, or disputes over, our intellectual property rights.

We consider our trademarks and trade name invaluable to our ability to continue to develop and enhance our brand recognition. We have spent over 20 years building our "New Oriental" brand by emphasizing quality and consistency and building trust among students and parents. From time to time, our trademarks and trade name have been used by third parties for or as part of other branded programs, services and products unrelated to us. We have sent cease and desist letters to such third parties in the past and will continue to do so in the future. However, preventing trademark and trade name infringement, particularly in China, is difficult, costly and time-consuming and continued unauthorized use of our trademarks and trade name by unrelated third parties may damage our reputation and brand. In addition, we have spent significant time and expense developing or licensing and localizing the content of our educational materials to enrich our product offerings and meet students' needs. There can be no assurance that competitors will not independently develop similar intellectual property. If others are able to copy and use our programs and services, we may not be able to maintain our competitive position. The measures we take to protect our trademarks, copyrights and other intellectual property rights, which presently are based upon a combination of trademark, copyright and trade secret laws, may not be adequate to prevent unauthorized use by third parties. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our trademarks, copyrights and other intellectual property rights, we may lose these rights, our brand name may be harmed, and our business may suffer materially.

We face significant competition in each major program we offer and each geographic market in which we operate, and if we fail to compete effectively, we may lose our market share and our profitability may be adversely affected.

The private education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We face competition in each major program we offer

RISK FACTORS

and each geographic market in which we operate. For example, we face competition from companies that focus on providing K-12 after-school tutoring services, test preparation and language training services in China.

Our student enrollments may decrease due to intense competition. Some of our competitors may have more resources than we do. These competitors may be able to devote greater resources than we can to the development, promotion and sale of their programs, services and products and respond more quickly than we can to changes in student needs, testing materials, admissions standards, school curricula or new technologies. In addition, we face competition from many different smaller sized organizations that focus on some of our targeted markets, and they may be able to respond more promptly to changes in student preferences in these markets. We also face competition from online educational service providers that offer online after-school tutoring services, test preparation and language training courses. These online education service providers use advanced technologies such as online live broadcasting technologies, to offer their programs, services and products quickly and cost-effectively to a large number of students. We may have to reduce course fees or increase spending in response to competition in order to retain or attract students or pursue new market opportunities, which could result in a decrease of our revenues and profitability. We cannot assure you that we will be able to compete successfully against current or future competitors. If we are unable to maintain our competitive position or otherwise respond to competitive pressures effectively, we may lose our market share and our profitability may be adversely affected.

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. The severity of the outbreak has resulted in the temporary closure of schools, learning centers, and many corporate offices across China. From the end of January 2020, we stopped the operation of all learning centers nationwide and moved our offline classes to small size online live broadcasting classes through the in-house developed OMO (online-merge-offline) system, which has played a fundamental role in reducing the impact of the COVID-19 outbreak on our services and operation. However, we still experienced higher refund rates from cancelation and deferments of our courses in January 2020 and challenges in acquiring new students in the third and the fourth fiscal quarters of 2020. Our total student enrollments in K-12 AST, test preparation, and other courses in the third fiscal quarter of 2020 experienced an increase of 2.3% year-over-year to approximately 1.6 million, which is lower than our historical increase in student enrollments for the same period, and our total student enrollments in K-12 AST, test preparation, and other courses in the fourth fiscal quarter of 2020 experienced a 6.2% year-over-year decrease to approximately 2.6 million. We have gradually resumed our offline operations from June 2020 and our student enrollments have since experienced recovery in growth. As of the Latest Practicable Date, all our offline operations have already resumed. The pandemic caused delays in national exams and enrollments for our summer and autumn classes and the resurgence of the pandemic in certain cities, such as Beijing, has further delayed the resumption of schools, which in turn has shortened the summer holiday. In addition, the COVID-19 pandemic has had a material and adverse impact, both economically and socially, in other countries, including the United States, the United Kingdom, Canada and other study-abroad destinations popular among Chinese students. The duration and intensity of disruptions resulting from the COVID-19 outbreak in these countries remain uncertain. As a result, Chinese students may be discouraged from pursuing study-abroad in the year of 2020, if not longer, which in turn may negatively affect the demand for our

RISK FACTORS

overseas test preparation courses, English language training courses, and overseas consulting services. Our business and financial performance have been adversely affected by the outbreak of COVID-19 in China and other countries since the beginning of 2020, and this is likely to continue throughout the current year and beyond.

We face risks related to health epidemics and other outbreaks, which could result in reduced attendance or temporary closure of our schools, learning centers and bookstores.

In addition to the impact of COVID-19, our business could also be materially and adversely affected by other health epidemics, such as H1N1 swine influenza, H7N9 bird flu, avian influenza, severe acute respiratory syndrome (SARS), Ebola or other disease. For example, the influenza A (H1N1) outbreak from 2009 to 2010 adversely affected our business and results of operations in the first and second fiscal quarters of 2010 as we experienced slower-than-usual student enrollment growth and large numbers of cancellations and deferments in enrollments from registered students. In addition, we had to cancel classes whenever an enrolled student was diagnosed with influenza A (H1N1), as required by applicable health regulations. Any future outbreak of adverse public health developments in China may have a material and adverse effect on our business operations. These occurrences could cause cancellations or deferments of student enrollments and require the temporary closure of our schools, learning centers and bookstores while we remain obligated to pay rent and other expenses for these facilities, thus severely disrupting our business operations and materially and adversely affecting our liquidity, financial condition and results of operations.

Failure to adequately and promptly respond to changes in testing materials, admissions standards and PRC laws and regulations on school curriculum could cause our programs, services and products to be less attractive to students.

Admissions and assessment tests undergo continuous change, in terms of the focus of the subjects and questions tested, the format of the tests and the manner in which the tests are administered. These changes require us to continually update and enhance our course materials and our teaching methods. For example, on September 18, 2016, the Chinese Ministry of Education, or the MOE promulgated the Guidance Opinions on Further Promoting the Reform of Exams and Entrance System for High Schools (《關於進一步推進高中階段學校考試招生制度改革的指導意見》) which promotes that the secondary school students shall participate the Secondary School Academic Proficiency Test, instead of participating in both the secondary school graduation exams and high school entrance exams, and the scores of students for certain subjects obtained in this Secondary School Academic Proficiency Test shall be taken into consideration for high school enrollment. In January 2017, the MOE promulgated new curriculum standards for the subject of science in primary schools, which took effect in the fall semester of 2017. In December 2017, the MOE issued the 2017 Curriculum Schemes and Curriculum Standards for Senior Secondary Schools (《普通高中課程方案和課程標準(2017年版)》), which was further amended in May 2020, and further issued the Opinions on the Implementing Work of the New Curriculums and the New Textbooks of Senior Secondary Schools (《教育部關於做好普通高中新課程新教材實施工作的指導意見》) in August 2018, both of which provides that the MOE developed a new nationwide senior secondary school curriculum system and organized the compilation of a group of new textbooks based on the new curriculum system, which shall be adopted in certain provinces from September 2019 and gradually expand to all other provinces by September 2022. We will adapt our tutoring programs and materials to new curriculum

RISK FACTORS

requirements promulgated from time to time. Any inability to track and respond to these changes in a timely and cost-effective manner would make our programs, services and products less attractive to students, which may materially and adversely affect our reputation and ability to continue to attract students without a significant decrease in course fees.

If colleges, universities and other higher education institutions reduce their reliance on admissions and assessment tests, we may experience a decrease in demand for our services and products and our business may be materially and adversely affected.

The success of our business depends on the continued use of admissions and assessment tests as a requirement for admission or graduation. However, the use of admissions tests in China may decline or fall out of favor with educational institutions and government authorities. For example, educational institutions and government authorities in China have recently initiated discussions and conducted early experiments in China on school admissions. Generally, these discussions and experiments exhibit a trend of admission decisions based less on entrance exam scores and more on a combination of other factors, such as past academic record, extracurricular activities and comprehensive aptitude evaluations. There have also been certain changes in some geographic areas in the way the high school entrance exam is administered. If the use of admissions tests in China declines or falls out of favor with educational institutions and government authorities and if we fail to respond to these changes, the demand for certain of our services may decline, and our business may be materially and adversely affected.

In the United States, there has been a continuing debate regarding the usefulness of admissions and assessment tests to assess qualifications of applicants and many people have criticized the use of admissions and assessment tests as unfairly discriminating against certain test takers. If a large number of educational institutions abandon the use of existing admissions and assessment tests as a requirement for admission, without replacing them with other admissions and assessment tests, we may experience a decrease in demand for our overseas test preparation courses and our business may be adversely affected.

We experienced and may continue to experience a decrease in our margins.

Many factors may cause our gross and net margins to decline. For example, we began offering smaller-sized classes for our short-term K-12 after-school tutoring and test preparation courses since 2009 due to market trends. Although our smaller-sized classes are highly profitable, they are marginally less profitable on average than our large classes. In addition, new investments and acquisitions may cause our margins to decline before we successfully integrate the acquired businesses into our operations and realize the full benefits of these investments and acquisitions. There is a risk that our margins could continue to decline in the future due to these factors.

New programs, services and products that we develop may compete with our current offerings.

We are constantly developing new programs, services and products to meet changes in student demands and respond to changes in testing materials, admissions standards, market needs and trends and technological

RISK FACTORS

changes. While some of the programs, services and products that we develop will expand our current offerings and increase student enrollments, others may compete with or render obsolete our existing offerings without increasing our total student enrollments. For example, our online courses may attract students away from our existing classroom-based courses, and our new schools and learning centers may attract students away from our existing schools and learning centers. If we are unable to expand our program, service and product offerings while increasing our total student enrollments and profitability, our business and growth may be adversely affected.

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

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenues and results of operations, primarily due to seasonal changes in student enrollments. Historically, our test preparation courses tend to have the highest revenue in our first fiscal quarter, which runs from June 1 to August 31 of each year, primarily because a significant number of students enroll in our courses during summer vacation to prepare for admissions and assessment tests. In addition, we have generally experienced higher revenue in our third fiscal quarter, which runs from December 1 to February 28 of each year, primarily because many students enroll in our test preparation courses during the winter school holidays. Our K-12 after-school tutoring courses tend to have higher revenue in the second half of our fiscal year, primarily because we gain more student enrollments as it gets closer to the exam season, such as the Zhongkao and Gaokao. However, our expenses vary, and certain of our expenses do not necessarily correspond with changes in our student enrollments and revenues. For example, we make investments in marketing and promotion, teacher recruitment and training, and product development throughout the year and we pay rent for our facilities based on the terms of the lease agreements. In addition, other factors beyond our control, including health epidemics and special events that take place during a quarter when our student enrollment would normally be high, may have a negative impact on our student enrollments. For example, the outbreak of COVID-19 since the beginning of 2020 had adversely affected our financial and operating results in the third and fourth fiscal quarters of 2020. We expect quarterly fluctuations in our revenues and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our Shares and ADSs. As our revenues grow, these seasonal fluctuations may become more pronounced.

Our reputation, results of operations, financial condition and the trading price of our ADSs may be negatively affected by adverse publicity or other detrimental conduct against us.

Adverse publicity concerning our failure or perceived failure to comply with legal and regulatory requirements, alleged accounting or financial reporting irregularities, regulatory scrutiny and further regulatory action or litigation could harm our reputation, result in our incurrence of substantial costs and distract our management's attention and cause the trading price of our ADSs to decline and fluctuate significantly. For example, after we issued a press release on July 17, 2012 disclosing that we were subject to the investigation by the U.S. Securities and Exchange Commission, or the SEC, and Muddy Waters LLC, an entity unrelated to us, which issued a report containing various allegations about us on July 18, 2012, the trading price of our ADSs declined sharply and we were inundated by numerous investor inquiries. In late 2016, there was negative media

RISK FACTORS

coverage referencing our small overseas study consulting division. The negative publicity and the resulting decline of the trading price of our ADSs also led to the filing of shareholder class action lawsuits against us and some of our senior executive officers. In addition, certain of our directors are subject to alleged class actions due to their current or previous directorships in other listed companies. Our directors and executive officers may also face litigation or proceedings (including alleged or future securities class action) unrelated to their respective capacity as a director or executive officer of our company, and such litigation or proceedings may adversely affect our public image and reputation.

We may continue to be the target of adverse publicity and other detrimental conduct against us. Such conduct includes complaints, anonymous or otherwise, to regulatory agencies regarding our operations, accounting, revenues and regulatory compliance. Additionally, allegations against us may be posted on the internet by any person or entity which identifies itself or on an anonymous basis. We may be subject to government or regulatory investigation or inquiries as a result of such third-party conduct and may be required to incur significant time and substantial costs to defend ourselves, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Our reputation may also be negatively affected as a result of the public dissemination of allegations or malicious statements about us, which in turn may materially and adversely affect our business, results of operations and financial condition and the trading price of our ADSs on the NYSE.

Our historical financial and operating results are not indicative of our future performance; and our financial and operating results are difficult to forecast.

Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the price of our Shares and/or ADSs to decline. In addition to the fluctuations described above, our revenues, expenses and operating results may vary from quarter to quarter and from year to year in response to a variety of other factors beyond our control, including:

- general economic conditions;
- regulations or actions pertaining to the provision of private educational services in China;
- detrimental negative publicity about us, our competitors or our industry;
- changes in consumers' spending patterns; and
- non-recurring charges incurred in connection with acquisitions or other extraordinary transactions or unexpected circumstances.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our operating results may not be indicative of our future performance, and therefore you should not rely on them to predict the future performance of our Shares and/or ADSs. In addition, our past results may not be indicative of future performance because of new businesses developed or acquired by us.

RISK FACTORS

We might not be able to fulfil our obligation in respect of deferred revenue, which might have impact on our cash/ liquidity position.

Our recognition of deferred revenue is subject to future performance obligations and may not be representative of revenues for future periods. Tuition for our educational programs and services is generally collected in advance and is initially recorded as deferred revenue, which will be recognized when the services are delivered. Due to potential future changes in customer preferences and the need for us to satisfactorily perform product support and other services, deferred revenue at any particular date may not be representative of actual revenue for any current or future period. Any failure to fulfil the obligations in respect of deferred revenue may have an adverse impact on our results of operations and liquidity.

We may be required to recognize impairment losses with regard to intangible assets and goodwill.

We carry goodwill and other intangible assets on our consolidated balance sheet. As a result, we may be required to recognize impairment losses with regard to intangible assets and goodwill. In accordance with ASC 350, Goodwill and Other Intangible Assets, the recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present. Any impairment losses for intangible assets and goodwill will adversely affect our results of operations and financial condition.

We are subject to fair value change for long-term investments and short-term investments and uncertainty due to the use of unobservable inputs.

Fluctuations in the fair value of long-term investments and short-term investments, due to market conditions or other reasons, may have an adverse impact on our results of operations. For example, we recorded a loss from fair value change of long-term investments in the fiscal year ended May 31, 2019 of US\$104.6 million, US\$96.6 million of which was from our investment in Sunlands, a company engaged in online education specific to vocational qualification training.

We use significant unobservable inputs, such as investee's historical earning, discount of lack of marketability, investee's time to initial public offering as well as related volatility in valuing our long-term investments. The assumptions are inherently uncertain and subjective, requiring us to make significant estimates, which may be subject to material changes, and therefore inherently involves a certain degree of uncertainty. Changes in any unobservable inputs may have a significant impact on the fair values.

Our results may be affected by the adoption of Accounting Standards Update 2016-02, Leases, as amended by subsequent ASUs ("ASC 842").

We adopted Leases (ASC 842) on June 1, 2019 and elected not to recast the comparative periods presented. The adoption of ASC 842 may impact on our financial position and certain key ratios, including but not limited to the gearing ratio, current ratio and quick ratio, attributable to the increases in our right-of-use assets and lease liabilities upon adoption.

RISK FACTORS

The increase in current lease liabilities may further have material impact on our liquidity as well as material changes in the working capital. We may fail to successfully enter into new bank loan or banking facility agreements or may not be able to achieve the anticipated benefits from potential bank loan or banking facilities agreements on terms favorable to us, all of which may adversely affect our financial condition.

Our business is difficult to evaluate because we have limited experience generating net income from some of our new services.

Historically, our core businesses have been English language training for adults and test preparation courses for college and graduate students. We have expanded our offerings through internal development and external investments. Some of these operations have not generated significant or any profit to date, and we have less experience responding quickly to changes, competing successfully and maintaining and expanding our brand in these areas without jeopardizing our brand in other areas. Consequently, there is limited operating history on which you can base your evaluation of the business and prospects of these relatively more recent operations.

The continuing efforts of our senior management team and other key personnel are important to our success, and our business may be harmed if we lose their services.

It is important for us to have the continuing services of our senior management team, in particular, Mr. Michael Minhong Yu, our founder and executive chairman, who has been our leader since our inception in 1993. If one or more of our senior executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily, and our business may be disrupted. Competition for experienced management personnel in the private education sector is intense, the pool of qualified candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose teachers, students, key professionals and staff members. Each of our executive officers and key employees is subject to the duty of confidentiality and non-competition restrictions. However, if any disputes arise between any of our senior executives or key personnel and us, it may be difficult to successfully pursue legal actions against these individuals because of the uncertainties of China's legal systems.

We generate a significant portion of our revenues from certain cities in China. Any event negatively affecting the private education industry in these cities could have a material adverse effect on our overall business and results of operations.

We derived a significant portion of our total net revenues for the fiscal year ended May 31, 2020 from our operations in Beijing, Hangzhou, Xi'an, and Shanghai, and we expect these cities to continue to constitute important sources of our revenues. If any of these cities experiences an event negatively affecting its private education industry, such as a serious economic downturn, a natural disaster or an outbreak of contagious disease, or if any of these cities adopts regulations relating to private education that place additional restrictions or burdens on us, our overall business and results of operations may be materially and adversely affected. For example, the outbreak of COVID-19 since the beginning of 2020 adversely affected our financial results and

RISK FACTORS

operations in the third and fourth fiscal quarter of 2020, see “Risks Related to Our Business — 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.”

If we are not able to continually enhance our online programs, services and products and online education systems and adapt them to rapid technological changes and student needs, we may lose market share and our business could be adversely affected.

The market for online educational programs, services and products is characterized by rapid technological changes and innovation, such as artificial intelligence, as well as unpredictable product life cycles and user preferences. We must quickly modify our programs, services and products to adapt to changing student needs and preferences, technological advances and evolving internet practices to compete successfully in the online education market. Ongoing enhancement of our online offerings and related technology may entail significant expense and technical risk. We may fail to use new technologies effectively or adapt our online products or services and related technology on a timely and cost-effective basis. In addition, we developed the OMO standardized digital classroom teaching system in 2014, which has since evolved into an online education system that complements and supports students’ offline learning activities. We have applied the OMO system across our comprehensive educational service offerings. If our improvements to our online offerings and online education systems and the related technology are delayed, result in systems interruptions or are not aligned with market expectations or preferences, we may lose market share and our business could be adversely affected.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material and adverse effect on the trading price of our Shares and/or ADSs.

We are subject to the reporting obligations under the U.S. securities laws. The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company’s internal control over financial reporting in its annual report, which contains management’s assessment of the effectiveness of the company’s internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of the company’s internal control over financial reporting. Although our management concluded, and our independent registered public accounting firm reported, that we maintained effective internal control over financial reporting as of May 31, 2020, we cannot assure you that we will maintain effective internal control over financial reporting on an ongoing basis. If we fail to maintain effective internal control over financial reporting, we will not be able to conclude and our independent registered public accounting firm will not be able to report that we have effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act of 2002 in our future annual report on Form 20-F covering the fiscal year in which this failure occurs. Effective internal control over financial reporting is necessary for us to produce reliable financial reports. Any failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could have a material and adverse effect on the trading price of our Shares and/or ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources as our business and operations further expand or in an effort to remediate any significant control deficiencies that may be identified in the future.

RISK FACTORS

We do not have liability or business disruption insurance in some of our teaching facilities, and a liability claim against us due to injuries suffered by our students or other people at our facilities could adversely affect our reputation and our financial results.

We could be held liable for accidents that occur at our schools, learning centers and other facilities, including indoor facilities where we organize certain summer camp activities and temporary housing facilities that we lease for our students from time to time. In the event of on-site food poisoning, personal injuries, fires or other accidents suffered by students or other people, we could face claims alleging that we were negligent, provided inadequate supervision or were otherwise liable for the injuries. We currently do not have liability insurance or business disruption insurance in some of our teaching facilities. A successful liability claim against us due to injuries suffered by our students or other people at our facilities could adversely affect our reputation and our financial results. Even if unsuccessful, such a claim could cause unfavorable publicity, require substantial cost to defend and divert the time and attention of our management from the operation of our business.

Capacity constraints or system disruptions to our computer systems or websites, any cybersecurity incidents, or a leak of student data could damage our reputation, limit our ability to retain students and increase student enrollments and require us to expend significant resources.

The performance and reliability of our online program infrastructure is critical to our reputation and ability to retain students and increase student enrollments. Any system error or failure, or a sudden and significant increase in traffic, could result in the difficulty of accessing our websites by our students or unavailability of our online programs. Although we use elastic cloud computing with an aim to timely expand our online program infrastructure to meet demand for such programs, we cannot assure you this will be sufficient to meet the increasing demands of our students as our business continues to grow. Our computer systems and operations could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and telecommunications failures. We use various cloud data centres which enable us to restore service quickly in case of significant damage to our on-site computer centre.

Although we have built a backup system that runs on different servers for our operating data, we may still lose important student data or suffer disruption to our operations if there is a failure of the database system or the backup system. To ensure the confidentiality and integrity of our data, including confidential student, parent and teaching staff information, we have taken security measures and adopted internal policies to protect such data. However, our computer networks may be vulnerable to unauthorized access, hacking, computer viruses and other security problems. Computer hackers may attempt to penetrate our network security and our website. We have in the past experienced several computer attacks, although they did not materially affect our operations. Unauthorized access to our proprietary business information or customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse, breach of the security of the networks of our third party providers, or other misconduct. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our network security or our website change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. A user who circumvents security

RISK FACTORS

measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. We could suffer economic and reputational damages and even bear legal liabilities if a technical failure of our systems or a security breach compromises student data, including identification or contact information, although there has not been any material compromise in the past. Any interruption to our computer systems or operations could have a material adverse effect on our ability to retain students and increase student enrollments.

We may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems caused by these breaches, which would increase the cost of our business and eventually have adverse effect on our financial conditions and results of operations.

Failure to comply with governmental regulation and other legal obligations concerning personal information protection may adversely affect our business, as we routinely collect, store and use personal information during our business.

We routinely collect, store and use personal information during our operations. We are subject to PRC laws and regulations governing the receiving, storing, sharing, using, processing, disclosure and protection of personal information on the Internet and mobile platforms. See “Regulations — Regulations Relating to Online Education — Regulation Related to Internet Information Security and Privacy Protection.” The scope of these laws and regulations is evolving and further detailed implementation rules and interpretations may be promulgated. We cannot assure you that we can adapt our operations to the requirements promptly. We also cannot assure you that our employees would not violate any PRC laws and regulations regarding the protection of personal information. If we or any of our employees fail to comply with these laws and regulations, we may be penalized by the relevant authorities and be subject to litigation against us by consumer advocacy groups or others, criminal allegations or negative publicity, and our operations or reputation could therefore be adversely affected.

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

Terrorist attacks, geopolitical uncertainty, economic slowdown and international conflicts involving the United States, the United Kingdom and elsewhere, such as the attacks on September 11, 2001, the Boston marathon bombings on April 15, 2013, and the announcement of Brexit in June 2016, could have an adverse effect on our overseas test preparation courses and English language training courses. Recently, there have been heightened tensions in relations between the United States and China. The U.S. government has imposed, and may continue to impose, restrictions to limit the entry of certain Chinese students to pursue academic studies in the United States. Such events may discourage students from studying in the United States and elsewhere outside of China and may also make it more difficult for Chinese students to obtain visas to study abroad. While we do not believe that the U.S.-China geopolitical tension will likely cause a material adverse impact on our business in the short term, further developments in the longer term could cause declines in the student enrollments for our overseas test preparation and English language training courses and overseas studies consulting services and could have an adverse effect on our overall business and results of operations.

RISK FACTORS

We may be subject to legal proceedings in the ordinary course of our business. If the outcomes of these proceedings are adverse to us, it could have a material adverse effect on our business, results of operations, and financial condition.

We may be subject to legal proceedings from time to time in the ordinary course of our business, which could have a material adverse effect on our business, results of operations, and financial condition. Claims arising out of actual or alleged violations of law could be asserted against us by our customers, our competitors, or other entities. These claims could be asserted under a variety of laws, including but not limited to intellectual property laws, labor and employment laws, securities laws, contract laws, property laws, and employee benefit laws. As a publicly-listed company, we may also face additional exposure to claims and lawsuits inside and outside China, including securities law class actions. See “Risk Factors — Risks Related to Our Business — We and certain of our directors and officers have been named as a defendant in a putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operations, cash flows and reputation.” There is no guarantee that we will be successful in defending ourselves in legal and administrative actions or in asserting our rights under various laws. Even if we are successful in our attempt to defend ourselves in legal and administrative actions or to assert our rights under various laws, enforcing our rights against the various parties involved may be expensive, time-consuming, and ultimately futile. These actions could expose us to negative publicity and to substantial monetary damages and legal defense costs, injunctive relief, and criminal, civil, and administrative fines and penalties.

We and certain of our directors and officers have been named as a defendant in a putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operations, cash flows and reputation.

We will have to defend against putative shareholder class action lawsuits described in “Business — Legal and Administrative Proceedings,” including any appeals of such lawsuits should our initial defenses be unsuccessful. We are currently unable to estimate the possible outcome or loss or possible range of loss, if any, associated with the resolution of the lawsuit. In the event that our initial defense of the lawsuit is unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome, including any plaintiff’s appeal of a judgment in the lawsuit, could have a material adverse effect on our business, financial condition, results of operations, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

We may need additional capital, and financing may not be available on terms acceptable to us, or at all.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or

RISK FACTORS

acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary principally depending on the timing of new school and learning centre openings, investments and/or acquisitions, and the amount of cash flow from our operations. If our existing cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations.

Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of educational service providers;
- 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 education in China;
- 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, especially in the event of a severe and prolonged economic recession globally or in the jurisdictions where we operate. If we fail to raise additional funds, we may need to reduce our growth to a level that can be supported by our cash flow. Without additional capital, we may not be able to open additional schools and learning centers, acquire necessary technologies, products or businesses, hire, train and retain teachers and other employees, market our programs, services and products, or respond to competitive pressures or unanticipated capital requirements.

If we are unable to comply with the restrictions and covenants in the trust deed in connection with the 2025 Notes, or our current or future debt and other agreements, on our cash flow and liquidity could be adversely affected.

In July 2020, we completed an offering of US\$300 million aggregate principal amount of 2.125% notes due 2025, or the 2025 Notes. If we are unable to comply with the restrictions and covenants in the trust deed in connection with the 2025 Notes, or our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the trust deed in connection with the 2025 Notes, contain cross-acceleration or cross-default provisions. As a

RISK FACTORS

result, our default under one debt agreement may cause the acceleration of debt, including the 2025 Notes, or result in a default under our other debt agreements, including the trust deed in connection with the 2025 Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us. The occurrence of these events may have a material adverse effect on our cash flow and liquidity.

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

Our office, schools and learning centers are mainly located on leased premises. The lease term generally ranges from three to fifteen years and the lease agreements are renewable upon mutual consent at the end of the applicable lease period. We may not be able to obtain new leases at desirable locations or renew our existing leases on acceptable terms or at all, which could adversely affect our business. We may have to relocate our operations for various other reasons, including increasing rentals, failure in passing the fire inspection in certain locations, the violation of the prescribed usage of the properties we use, and the early termination of our lease agreements under applicable PRC laws and regulations.

In addition, a few of our lessors have not been able to provide us with copies of title certificates or other evidentiary documents to prove that they have authorization to lease the properties to us. Our business and legal teams follow an internal procedure to identify and assess risks when leasing properties in the normal course of business, and a final business decision would be made after our analysis of the likely impact of the defects on the leasehold interests and the value of the properties to our expansion plan. However, there is no assurance that our decision would always lead to the favorable outcome we expected to achieve. If any of our leases are terminated as a result of challenges by third parties or government authorities for lack of title certificates or proof of authorization to lease, we do not expect to be subject to any fines or penalties but we may be forced to relocate the affected learning centers and incur additional expenses relating to such relocation. Furthermore, a few of our lessors have mortgaged the properties that we are renting. In the event that these properties are foreclosed on due to the lessors' failure to perform their obligations to the creditors, we may not be able to continue to use such leased properties and may incur additional expenses for relocation.

In addition, we have not registered some of our lease agreements with the relevant PRC governmental authorities as required by relevant PRC law. While the lack of registration would not affect the validity and enforceability of the lease agreements in practice, we may be required by the relevant governmental authorities to complete such registration, or otherwise be subject to fines ranging from RMB1,000 to RMB10,000 for each lease agreement that has not been registered.

According to the PRC fire safety laws and regulations, construction and renovation of buildings are subject to fire control approvals or fire control filings except for certain statutory exemptions. A portion of the properties we use do not fully comply with the fire control approval or fire control filing requirements primarily because our Group consists of a colossal network of schools and subsidiaries and different local authorities may have different practices in enforcing the regulatory requirements. We also cannot assure you that the properties we

RISK FACTORS

lease in the future would fully comply with the relevant fire control laws and regulations. If our use of the properties is challenged by relevant government authorities for lack of fire control procedures, we may be subject to fines and may need to relocate our operations to other locations, which would incur additional expenses. If we fail to find suitable replacement sites in a timely manner or on terms acceptable to us, our business and results of operations could be materially and adversely affected. As of the Latest Practicable Date, we were not asked to relocate by any competent authority for lack of fire control procedures. Since there is only a small portion of properties which lack fire control procedures and the likelihood that we are required to relocate from all these properties simultaneously is minimal, our Directors and, to the extent of legal due diligence conducted on the principal PRC subsidiaries and schools, our PRC Legal Adviser is of the view that these non-compliant properties do not have a material adverse impact on our Group's business operation and financial performance. To prevent the reoccurrence of such non-compliances, we have formulated management measures on property leasing which require our schools to investigate the fire control procedure status of a property and evaluate its fire control risk before leasing it, and complete the subsequent fire control procedures if required. For existing leased properties lacking fire control procedures, we also encourage our schools to voluntarily relocate when condition permits to reduce our Group's compliant risk.

RISKS RELATED TO OUR CORPORATE STRUCTURE

If the PRC government finds that the agreements that establish the structure for operating some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

PRC laws and regulations currently require any foreign entity that invests in the education business in China to be an educational institution with relevant experience in providing educational services outside China. Our offshore holding companies are not educational institutions and do not provide educational services outside China. In addition, in the PRC, foreign ownership of high schools for students in grade ten to twelve is restricted and foreign ownership of primary and middle schools for students in grades one to nine is prohibited. As a result, our offshore holding companies are not allowed to directly own and operate schools in China.

We conduct substantially all of our education business in China through a series of contractual arrangements with New Oriental China and its schools and subsidiaries and New Oriental China's shareholder. These contractual arrangements enable us to (1) have power to direct the activities that most significantly affect the economic performance of New Oriental China and its schools and subsidiaries; (2) receive substantially all of the economic benefits from New Oriental China and its schools and subsidiaries in consideration for the services provided by our wholly-owned subsidiaries in China; and (3) have an exclusive option to purchase all or part of the equity interests in New Oriental China, when and to the extent permitted by PRC law, or request any existing shareholder of New Oriental China to transfer all or part of the equity interest in New Oriental China to another PRC person or entity designated by us at any time in our discretion. For a description of these contractual arrangements, see "History — Contractual Arrangements — Contractual Arrangements with New Oriental China."

RISK FACTORS

In addition, foreign ownership in entities that provided value-added telecommunication services, with a few exceptions, is subject to restrictions under the current PRC laws and regulations. Specifically, foreign ownership of an internet information service provider may not exceed 50%, and the major foreign investor is required to have a record of good performance and operating experience in managing value-added telecommunication business. To ensure compliance with the PRC laws and regulations, our online education business is operated by our majority-owned subsidiary, Koolearn Technology Holding Limited, or Koolearn, through a series of contractual arrangements with Beijing New Oriental Xuncheng Network Technology Co., Ltd., or Beijing Xuncheng, and its subsidiaries and shareholders. These contractual arrangements enable Koolearn to (1) have power to direct the activities that most significantly affect the economic performance of Beijing Xuncheng and its subsidiaries; (2) receive substantially all of the economic benefits from Beijing Xuncheng and its subsidiaries in consideration for the services provided by Koolearn's wholly-owned subsidiaries in China; and (3) have an exclusive option to purchase all or part of the equity interests in Beijing Xuncheng, when and to the extent permitted by PRC law, or request any existing shareholder of Beijing Xuncheng to transfer all or part of the equity interest in Beijing Xuncheng to another PRC person or entity designated by us at any time in our discretion. For a description of these contractual arrangements, see "History Contractual Arrangements — Contractual Arrangements with Beijing Xuncheng." In this prospectus, we refer to New Oriental China and Beijing Xuncheng as our variable interest entities, and to New Oriental China and its schools and subsidiaries as well as Beijing Xuncheng and its subsidiaries as our consolidated affiliated entities.

Tian Yuan Law Firm, our PRC Legal Adviser, is of the opinion that, as of the date of this document:

- (i) the corporate structure of New Oriental China and its schools and subsidiaries and our wholly-owned subsidiaries in China, and (ii) the corporate structure of Beijing Xuncheng and its subsidiaries and the wholly-owned subsidiaries of Koolearn in China are not in violation of existing PRC laws and regulations; and
- (i) the contractual arrangements among our wholly-owned subsidiaries in China, New Oriental China and its schools and subsidiaries and the shareholder of New Oriental China, and (ii) the contractual arrangements among Koolearn's wholly-owned subsidiaries in China, Beijing Xuncheng and its subsidiaries and shareholders are valid, binding and enforceable under, and do not violate, PRC laws or regulations currently in effect.

On November 7, 2018, the Central Committee of the Communist Party of China and the State Council issued the Opinions of the Central Committee of the Communist Party of China and State Council on Deepening Reform in Preschool Education, or Preschool Opinions. The Preschool Opinions provide that non-state capital is prohibited from controlling non-profit kindergartens through contractual arrangements. In January 2019, the General Office of the State Council issued the Circular on Initiating the Rectification of Kindergartens Affiliated to the Residential Communities in Urban Areas, pursuant to which the community-affiliated kindergartens can only be registered as non-profit kindergartens. As of the date of this document, we have not been requested by competent government authorities to unwind the contractual arrangements over our kindergartens.

The Preschool Opinions also provide that private kindergartens are prohibited from listing as public companies by themselves or through packaging with other assets; and listed companies are prohibited from

RISK FACTORS

investing in for-profit kindergartens using funds from the capital market and acquiring for-profit kindergarten assets with stock or cash consideration. As advised by our PRC Legal Adviser, Tian Yuan Law Firm, the prohibition of private kindergartens from listing as public companies shall not have retrospective effect on private kindergartens that are already operated by a listed company prior to the promulgation of the Preschool Opinions, and as we have been a public company since 2006, our kindergartens do not fall within “listing as public companies by themselves or through packaging with other assets.” After the promulgation of the Preschool Opinions, we did not make any investment in for-profit kindergartens using funds from the capital market or acquire any for-profit kindergartens assets with stock or cash consideration in order to comply with the Preschool Opinions. The contribution of kindergartens have been immaterial to our business, we derived less than 1% of our total net revenues from our kindergartens for each of the fiscal years ended May 31, 2018, 2019 and 2020. Based on the foregoing, our PRC Legal Adviser is of the view that the restrictions of the Preschool Opinions on the investment in or acquisition of for-profit kindergartens would not materially and negatively impact our business and operations.

In addition, on August 10, 2018, the Ministry of Justice published for public comments a draft of the amended Implementation Rules for the Amended Private Education Law, or the Draft Amended Implementation Rules, which prohibit entities implementing group-based education from gaining control over non-profit schools through contractual arrangements. As of the date of this document, we control two compulsory-education schools, Beijing Changping New Oriental Bilingual School and Beijing New Oriental Yangzhou Foreign Language School, which as required by the Private Education Law, can only be registered as non-profit private schools. As of the date of this document, the Draft Amended Implementation Rules is still pending for approval and has not come into effect. Since the Draft Amended Implementation Rules does not define group-based education, there is uncertainty as to whether we are implementing group-based education. It is also uncertain whether we will be grandfathered under the Draft Amended Implementation Rules as our contractual arrangements over non-profit schools have been entered into prior to the Draft Amended Implementation Rules that is still pending to come into effect. Our PRC Legal Adviser is of the view that since the Draft Amended Implementation Rules has not come into effect and is not legally binding, the corporate structure of our company does not violate PRC laws currently in effect due to the existence of the Draft Amended Implementation Rules. If the Draft Amended Implementation Rules is promulgated as an effective regulation in the future in its current form, and if we are not allowed to operate our two compulsory-education schools under the Draft Amended Implementation Rules, we may be requested by competent government authorities to unwind our contractual arrangements over these two compulsory-education schools.

We have been advised by our PRC Legal Adviser, however, that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC Legal Adviser. For example, if the relevant government authorities take a different view from ours on the Preschool Opinions and determine that our for-profit and/or non-profit kindergartens shall be excluded from our company, we may be requested to unwind the contractual arrangements for some or all of our kindergartens.

It is uncertain whether any new PRC laws, rules or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. In particular, whether and how the Foreign Investment

RISK FACTORS

Law promulgated in March 2019, which came into effect on January 1, 2020, will impact the viability of our current corporate structure, corporate governance and business operations. See “Risks Related to Doing Business in China — Uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance, business, financial condition and results of operations.”

We have been further advised by our PRC Legal Adviser that if we, any of our PRC subsidiaries or consolidated affiliated entities are found to be in violation of any existing or future PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the Ministry of Education, which regulates the education industry, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries or consolidated affiliated entities;
- confiscating any of our income that they deem to be obtained through illegal operations;
- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiaries and our consolidated affiliated entities;
- restricting our right to collect revenues or limiting our business expansion in China by way of entering into contractual arrangements;
- imposing fines or other requirements with which we may not be able to comply;
- requiring us to restructure our corporate structure or operations;
- restricting or prohibiting our use of the proceeds of our future offering to finance our business and operations in China; or
- taking other regulatory or enforcement actions that could be harmful to our business.

The imposition of any of these penalties could result in a material and adverse effect on our ability to conduct our business and on our results of operations. If any of these penalties results in our inability to direct the activities of our consolidated affiliated entities that most significantly impact their economic performance, and/or our failure to receive the economic benefits from our consolidated affiliated entities, we may not be able to consolidate our consolidated affiliated entities in our consolidated financial statements in accordance with U.S. GAAP. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our subsidiaries in China or our consolidated affiliated entities.

RISK FACTORS

We rely on contractual arrangements for our operations in China, which may not be as effective in providing operational control as direct ownership.

We have relied and expect to continue to rely on contractual arrangements with our variable interest entities, their respective schools and/or subsidiaries and their respective shareholders to operate substantially all of our education business. These contractual arrangements may not be as effective in providing us with control over our variable interest entities as direct ownership. From the legal perspective, if our variable interest entities, any of their schools and/or subsidiaries or their shareholders fails to perform its respective obligations under the contractual arrangements, we may have to incur substantial costs and spend other resources to enforce such arrangements, and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief and claiming damages. For example, if Beijing Century Friendship Education Investment Co., Ltd., or Century Friendship, the sole shareholder of New Oriental China, were to refuse to transfer its equity interest in New Oriental China to us or our designee when we exercise the call option pursuant to the option agreement, or if it otherwise acts in bad faith toward us, then we may have to take legal action to compel it to fulfill its contractual obligations, which could be time consuming and costly.

These contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC or through the PRC courts. The legal environment in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the fiscal years ended May 31, 2018, 2019 and 2020, our consolidated affiliated entities contributed in aggregate 98.8%, 98.7% and 96.5%, respectively, of our total net revenues. In the event we are unable to enforce these contractual arrangements, we may not be able to have the power to direct the activities that most significantly affect the economic performance of our consolidated affiliated entities, and our ability to conduct our business may be negatively affected, and we may not be able to consolidate the financial results of our consolidated affiliated entities into our consolidated financial statements in accordance with U.S. GAAP.

Our ability to enforce the equity pledge agreements between us and the shareholders of our variable interest entities may be subject to limitations based on PRC laws and regulations.

Pursuant to the equity pledge agreements among our subsidiaries in China, each of our variable interest entities and their respective shareholders, each shareholder of our variable interest entities agrees to pledge its equity interests in the variable interest entity to our subsidiaries to secure the performance by themselves and by our consolidated affiliated entities of their obligations under the relevant contractual arrangements. The equity pledges of shareholders of our variable interest entities under these equity pledge agreements have been registered with the relevant local branch of the SAMR. According to the PRC Property Law (《中華人民共和國物權法》) and PRC Guarantee Law (《中華人民共和國擔保法》), 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. However, under the PRC Property Law (《中華人民共和國物權法》), 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 any of our consolidated affiliated entities or any of the shareholders of our variable interest entities fails to

RISK FACTORS

perform its obligations secured by the pledges under the equity pledge agreements, one remedy in the event of default under the agreements is to require the pledgor to sell the equity interests of our variable interest entity in an auction or private sale and remit the proceeds to our subsidiaries in China, 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 the variable interest entity. We consider it very unlikely that the public auction process would be undertaken since, in an event of default, our preferred approach is to ask our PRC subsidiary, a party to the option agreement with the shareholder of our variable interest entities, to designate another PRC person or entity to replace the shareholder pursuant to the direct transfer option we have under the option agreement.

In addition, for New Oriental China, the amount of registered equity interests pledged to our wholly-owned subsidiaries in the registration forms of the local branch of the SAMR was stated as RMB3,000,000, RMB18,500,000, RMB9,500,000, RMB14,000,000 and RMB5,000,000, respectively, which in aggregate represent 100% of the registered capital of New Oriental China. The equity pledge agreements with New Oriental China's shareholder provide that the pledged equity interest shall constitute continuing security for any and all of the indebtedness, obligations and liabilities under all of the principal service agreements and the scope of pledge shall not be limited by the amount of the registered capital of New Oriental China. However, it is possible that a PRC court may take the position that the amount listed on the equity pledge registration forms represents the full amount of the collateral that has been registered and perfected. If this is the case, the obligations that are supposed to be secured in the equity pledge agreements in excess of the amount listed on the equity pledge registration forms could be determined by the PRC court as unsecured debt, which takes last priority among creditors and often does not have to be paid back at all. We do not have agreements that pledge the assets of New Oriental China and its schools and subsidiaries for the benefit of us or our wholly-owned subsidiaries.

The controlling shareholder of Century Friendship, which is the sole shareholder of New Oriental China, may have potential conflicts of interest with us, and if any such conflicts of interest are not resolved in our favor, our business may be materially and adversely affected.

New Oriental China is the majority shareholder of Beijing Xuncheng, holding 74.494% of Beijing Xuncheng as of May 31, 2020. New Oriental China is wholly owned by Century Friendship, a PRC domestic company which is controlled by Mr. Michael Minhong Yu, our founder and executive chairman. The interests of Mr. Yu as the controlling shareholder of the entity which owns New Oriental China may differ from the interests of our company as a whole, since Mr. Yu is only one of the beneficial owners of our company, holding 12.4% of our total common shares issued and outstanding as of September 7, 2020. We cannot assure you that when conflicts of interest arise, Mr. Yu will act in the best interests of our company or that conflicts of interests will be resolved in our favor. In addition, Mr. Yu may breach or cause New Oriental China and its schools and subsidiaries to breach or cause Beijing Xuncheng and its subsidiaries to breach or refuse to renew the existing contractual arrangements with us. Currently, we do not have existing arrangements to address potential conflicts of interest Mr. Yu may encounter in his capacity as a beneficial owner and director of New Oriental China, on the one hand, and as a beneficial owner and director of our company, on the other hand; provided that we could, at all times, exercise our option under the option agreement with Century Friendship to cause it to transfer all of its equity ownership in New Oriental China to a PRC entity or individual designated by us, and this new shareholder of New Oriental China could then appoint a new director of New Oriental China to replace Mr. Yu. In addition, if such conflicts of interest arise, Beijing Pioneer could also, in the capacity of Century Friendship's

RISK FACTORS

attorney-in-fact as provided under the proxy agreement and power of attorney, directly appoint a new director of New Oriental China to replace Mr. Yu. We rely on Century Friendship and Mr. Yu to comply with the laws of China, which protect contracts, including the contractual arrangements New Oriental China and its schools and subsidiaries and its shareholder have entered into with us, which provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains. We also rely on Mr. Yu 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 with a view to 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 between us and Century Friendship and Mr. Yu, 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.

If the custodians or authorized users of our controlling non-tangible assets, including chops and seals, fail to fulfill their responsibilities, or misappropriate or misuse these assets, our business and operations could be materially and adversely affected.

Under PRC law, legal documents for corporate transactions, including agreements and contracts such as the leases and sales contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant local branch of the SAMR. We generally execute legal documents by affixing chops or seals, rather than having the designated legal representatives sign the documents.

We have three major types of chops — corporate chops, contract chops and finance chops. We use corporate chops generally for documents to be submitted to government agencies, such as applications for changing business scope, directors or company name, and for legal letters. We use contract chops for executing leases and commercial, contracts. We use finance chops generally for making and collecting payments, including, but not limited to issuing invoices. Use of corporate chops and contract chops must be approved by our legal department and administrative department, and use of finance chops must be approved by our finance department. The chops of our subsidiaries and our consolidated affiliated entities are generally held by the relevant entities so that documents can be executed locally. Although we usually utilize chops to execute contracts, the registered legal representatives of our PRC subsidiaries and our consolidated affiliated entities have the apparent authority to enter into contracts on behalf of such entities without chops. All designated legal representatives of our PRC subsidiaries and our consolidated affiliated entities are members of our or the respective entity's senior management who have signed employment agreements with us under which they agree to abide by duties they owe to us.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to the department heads of the legal, administrative or finance departments. Our designated legal representatives generally do not have access to the chops. Although we monitor our employees, including the designated legal representatives of our PRC subsidiaries and our consolidated affiliated entities, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees or

RISK FACTORS

designated legal representatives could abuse their authority, for example, by binding the relevant subsidiary or consolidated affiliated entity with contracts against our interests, as we would be obligated to honor these contracts if the other contracting party acts in good faith in reliance on the apparent authority of our chops or signatures of our legal representatives. If any designated legal representative obtains control of the chop in an effort to obtain control over the relevant entity, we would need to have a shareholder or board resolution to designate a new legal representative and to take legal action to seek the return of the chop, apply for a new chop with the relevant authorities, or otherwise seek legal remedies for the legal representative's misconduct. If any of the designated legal representatives obtains and misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations.

Our ability to operate private schools may be subject to significant limitations or may otherwise be materially and adversely affected by changes in PRC laws and regulations.

The principal regulations governing private education in China are the Law for Promoting Private Education (《中華人民共和國民辦教育促進法》), or the Private Education Law, and the Implementation Rules for the Law for Promoting Private Education (《中華人民共和國民辦教育促進法實施條例》), or the Implementation Rules.

Before September 1, 2017, under the Private Education Law and its Implementation Rules, a private school may elect to be a school that does not require reasonable returns or a school that requires reasonable returns. At the end of each fiscal year, every private school is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of annual net income of the school, while in the case of a private school that does 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.

On November 7, 2016, the Standing Committee of the National People's Congress amended the Private Education Law, or the Amended Private Education Law, which took effect on September 1, 2017. Under the Amended Private Education Law, the term "reasonable return" is no longer used, and sponsors of private schools may choose to establish non-profit or for-profit private schools at their own discretion, except that private schools in compulsory education area can only be registered as non-profit private schools. Sponsors of for-profit private schools are entitled to retain the profits from their schools and the operating surplus may be allocated to the sponsors pursuant to the PRC Company Law (《中華人民共和國公司法》) and other relevant laws and regulations. Sponsors of non-profit private schools are not entitled to any distribution of profits from their schools and the entire income must be used for the operations of the schools. See "Regulations — Regulations on Private Education — The Law for Promoting Private Education and Its Implementation Rules." Other than certain of our kindergartens, and our compulsory-education schools (namely schools providing grade 1 to grade 9 formal education) that are required to be non-profit schools under the Amended Private Education Law, we intend to register all of our schools as for-profit private schools to the extent practicable under the relevant local rules and regulations. However, as of the Latest Practicable Date, only certain local governments have

RISK FACTORS

promulgated specific measures for registration of pre-existing private schools. Furthermore, even for those places where specific measures for registration of pre-existing private schools have been promulgated, some local government authorities in practice have not started to accept application for registration of pre-existing private schools as for-profit schools. Therefore, we cannot assure you that our pre-existing private schools can all apply for and complete registration as for-profit schools in a timely manner, or at all. Also, as measures for registration of pre-existing private schools in many provinces are yet to be introduced, we also cannot assure you whether there will be other risks associated with such registration.

On August 10, 2018, the Ministry of Justice published for public comments the Draft Amended Implementation Rules. As of the Latest Practicable Date, the Draft Amended Implementation Rules is still pending for approval and not promulgated as an effective regulation. The Draft Amended Implementation Rules, if promulgated, as an effective regulation, will have certain impacts on our existing business operations, including:

- Private schools that provide pre-school education and formal education, will be subject to approval by the government's education department at county level or above using standards applicable to public schools of the same grade and category. Private training schools that provide after-school tutoring services for kindergarten kids or primary, middle and high school students will be subject to approval and strict supervision by the government's education department at or above county level. Pursuant to the foregoing, except for our kindergartens, private primary and secondary schools in Yangzhou and Beijing and our private training schools that provide after-school tutoring services, all of our other existing schools would not be required to obtain approval from the government's education department.
- Except that private schools providing online formal education need to apply for private school operating permit, private schools providing online training and educational services, or technology companies providing any online platform or system supporting such online training and educations, will only need to obtain relevant internet operation permits and complete record-filing with the government's education department or the government's human resources and social security department at provincial level. None of our schools provide online formal education. The operating entity of our online education holds a license for Internet information services, or ICP license.

In addition, the Draft Amended Implementation Rules prohibit any entities implementing group-based education from gaining control over non-profit schools through mergers and acquisitions, franchise chains, and control agreements. Any agreements between a non-profit private school and its connected party that involve major interests or will be repeatedly performed in a long-term shall be reviewed and audited by relevant government authorities in the aspect of necessity, legitimacy and compliance and shall be arm's-length transactions.

Further, the PRC government authorities have recently issued several regulations aiming to strength its regulation of after-school training institutions. These regulations and implementation rules provide a series of requirements in the operation of after-school tutoring business, which include, among others: (1) key course

RISK FACTORS

information, including subjects, course schedules and course syllabi, for school academic subjects courses, shall be filed with the local education administration authorities and made publicly available, and the progress of the courses shall not surpass the progress of local primary schools and secondary schools for the same period; (2) training classes shall not be scheduled in conflict with the regular schooling time in local primary schools and secondary schools; (3) tutoring activities shall end before 8:30 p.m.; (4) homework shall not be assigned; (5) scored examination, competition or ranking in connection with the courses of primary schools or secondary schools shall not be arranged; (6) tuition fees for a period spanning more than three months should not be collected at one time; (7) no fees, other than those that have been made public, and no compulsory fundraising in any name, may be made to students; (8) student safety insurance shall be purchased by the after-school tutoring institutions; (9) teaching staff who teach Chinese, mathematics, foreign language, physics, chemistry and other subjects in the compulsory education system as well as academic subjects related to the entering of higher education and their extension training shall have requisite teacher qualifications; and (10) public school teachers shall not be employed by after-school tutoring institutions. In addition, the PRC government authorities have issued regulations on online after-school tutoring activities that restate certain requirements that apply to all after-school tutoring institutions and further provide certain specific requirements for online after-school tutoring institutions. See “Regulations” for more information. We are continuously making efforts to comply with the requirements under these regulations and implementations. However, we cannot assure you that we will be able to comply with such requirements in a timely manner, or at all. If we fail to comply with these requirements and any other applicable regulatory requirements, we may be subject to fines, regulatory orders to suspend our operations or other regulatory and disciplinary sanctions, which may materially and adversely affect our business and results of operations.

In November 2018, the Central Committee of the Communist Party of China and the State Council issued the Preschool Opinions. In January 2019, the General Office of the State Council issued the Circular on Initiating the Rectification. It is uncertain as to how the Preschool Opinions and the Circular on Initiating the Rectification will be interpreted and implemented. To the extent that we are not able to fully comply with these requirements, our business, financial condition and results of operations may be adversely affected. See “— If the PRC government finds that the agreements that establish the structure for operating some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

In addition, under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The contractual arrangements with our consolidated affiliated entities may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net income and the value of your investment. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our subsidiaries in China and our consolidated affiliated entities, do not represent an arm’s-length price and adjust our consolidated affiliated entities’ income in the form 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 our consolidated affiliated entities, which could in turn increase their tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our consolidated affiliated entities for

RISK FACTORS

under-paid taxes. Our consolidated net income may be materially and adversely affected if our tax liabilities increase or if we are found to be subject to late payment fees or other penalties.

Regulatory agencies may commence investigations of the private primary and secondary schools controlled and operated by New Oriental China. If the results of the investigations are unfavorable to us, we may be subject to fines, penalties, injunctions or other censure that could have an adverse impact on our results of operations.

PRC laws and regulations currently prohibit foreign ownership of primary and middle schools for students in grades one to nine in China, and restrict foreign ownership of high schools for students in grades ten to twelve. New Oriental China controls and operates a private primary and secondary school in Yangzhou and a private secondary school in Beijing. As the provision of private primary and middle school services is a heavily regulated industry in China, our existing and any new primary or middle schools we establish or acquire in the future may be subject from time to time to investigations, claims of non-compliance or lawsuits by governmental agencies, which may allege statutory violations, regulatory infractions or other causes of action. If the results of the investigations are unfavorable to us, we may be subject to fines, injunctions or other penalties that could have an adverse impact on our results of operations. Even if we adequately address the issues raised by a government investigation, we may have to devote significant financial and management resources to resolve these issues, which could harm our business.

We may rely on dividends and other distributions on equity paid by our wholly-owned subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries or New Oriental China and its schools and subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we may rely on dividends from our wholly-owned subsidiaries in China and service, license and other fees paid to our wholly-owned subsidiaries by New Oriental China and its schools and subsidiaries for our cash requirements, including any debt we may incur. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries and New Oriental China and its subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital, and each of our subsidiaries is required to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of its board of directors. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries and New Oriental China and its schools and subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements we currently have in place in a manner that would materially and adversely affect our subsidiaries' ability to pay dividends and other distributions to us. Moreover, at the end of each fiscal year, every private school in China is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of a private school

RISK FACTORS

that does not require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any. Any limitation on the ability of our subsidiaries to distribute dividends to us or on the ability of New Oriental China and its schools and subsidiaries to make payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

PRC regulation of loans to, and direct investment in, PRC entities by offshore holding companies and governmental control of currency conversion may restrict or prevent us from making loans to our PRC subsidiaries or New Oriental China and its schools and subsidiaries or making additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We are an offshore holding company conducting our operations in China through our PRC subsidiaries and New Oriental China and its schools and subsidiaries. We may need to make loans to our PRC subsidiaries or New Oriental China and its schools and subsidiaries, or we may make additional capital contributions to our PRC subsidiaries.

Any loans to our PRC subsidiaries or New Oriental China and its schools and subsidiaries are subject to PRC regulations. For example, loans by us to our wholly-owned subsidiaries in China, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange, or SAFE, or its local counterparts. Loans by us to New Oriental China and its schools and subsidiaries, which are domestic PRC entities, must be approved by the relevant government authorities and must also be registered with SAFE or its local counterparts.

We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be filing and reporting to the PRC Ministry of Commerce or its local counterparts. We are unlikely, however, to finance the activities of New Oriental China and its schools and subsidiaries by means of capital contributions due to regulatory issues related to foreign investment in domestic PRC entities, as well as the licensing and other regulatory issues. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), or SAFE Circular 19, effective in June 2015, in replacement of former regulations. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of bank loans that have been transferred to a third-party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether in practice SAFE will permit such capital to be used for equity investments in China. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or

RISK FACTORS

SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the limitation on the use of RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company from prohibiting using such capital to issue RMB entrusted loans to prohibiting using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular may 16, significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from the current offering, to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in China. On October 23, 2019, SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment, or the SAFE Circular 28, which, among other things, allows all foreign-invested companies to use RMB converted from foreign currency-denominated capital for equity investments in China, for so long as there is a truthful equity investment, and such equity investment does not violate applicable laws and complies with the negative list on foreign investment. See also “Regulations.”

We expect that PRC laws and regulations may continue to limit our use of proceeds from offshore offerings. There are no costs associated with registering loans or capital contributions with relevant PRC government authorities, other than nominal processing charges. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

If any of New Oriental China and its schools and subsidiaries becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy their assets, which could reduce the size of our operations and materially and adversely affect our business, ability to generate revenue and the market price of our Shares and/or ADSs.

To comply with PRC laws and regulations relating to foreign ownership restrictions in the education business, we currently conduct substantially all of our operations in China through contractual arrangements with New Oriental China and its schools and subsidiaries as well as its shareholder. As part of these arrangements, New Oriental China and its schools and subsidiaries hold assets that are important to the operation of our business.

We do not have priority pledges and liens against New Oriental China’s assets. As a contractual and property right matter, this lack of priority pledges and liens has remote risks. If New Oriental China undergoes an involuntary liquidation proceeding, third-party creditors may claim rights to some or all of its assets and we may not have priority against such third-party creditors on New Oriental China’s assets. If New Oriental China liquidates, we may take part in the liquidation procedures as a general creditor under the PRC Enterprise Bankruptcy Law and recover any outstanding liabilities owed by New Oriental China to our PRC subsidiaries under the applicable service agreements. To ameliorate the risks of an involuntary liquidation proceeding initiated by a third-party creditor, we closely monitor the operations and finances of New Oriental China through carefully designed budgetary and internal controls to ensure that New Oriental China is well capitalized and is highly unlikely to trigger any third party monetary claims in excess of its assets and cash resources. Furthermore, our PRC subsidiaries have the ability, if necessary, to inject capital in Renminbi into New Oriental China to prevent such an involuntary liquidation.

RISK FACTORS

If the shareholder of New Oriental China were to attempt to voluntarily liquidate New Oriental China without obtaining our prior consent, we could effectively prevent such unauthorized voluntary liquidation by exercising our right to request New Oriental China's shareholder to transfer all of its equity ownership interest to a PRC entity or individual designated by us in accordance with the option agreement with the New Oriental China shareholder. In addition, under the equity pledge agreements signed by the shareholder of New Oriental China and the PRC Property Law (《中華人民共和國物權法》), the shareholder of New Oriental China does not have the right to issue dividends to itself or otherwise distribute the retained earnings or other assets of New Oriental China without our consent. Also, under the proxy agreement and power of attorney, the shareholder of New Oriental China undertakes to Beijing Pioneer, our wholly-owned PRC subsidiary, that if it receives, among other things, any dividends, residual assets upon liquidation or proceeds from the transfer of its equity interest in New Oriental China, it will, to the extent permitted under applicable law, remit all such dividends, residual assets and proceeds to Beijing Pioneer without any compensation or other consideration. In the event that the shareholder of New Oriental China initiates a voluntary liquidation proceeding without our authorization or attempts to distribute the retained earnings or assets of New Oriental China without our prior consent, we may need to resort to legal proceedings to enforce the terms of the contractual agreements. Any such litigation may be costly and may divert our management's time and attention away from the operation of our business, and the outcome of such litigation would be uncertain.

RISKS RELATED TO DOING BUSINESS IN CHINA

Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business, financial conditions and results of operations.

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our

RISK FACTORS

financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. The growth rate of the Chinese economy has gradually slowed since 2010, and the impact of COVID-19 on the Chinese economy in 2020 is likely to be severe. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

Our business, financial condition and results of operations, as well as our ability to obtain financing, may be adversely affected by the downturn in the global or PRC economy.

COVID-19 had a severe and negative impact on the Chinese and the global economy in the first half of 2020. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of the COVID-19, the global macroeconomic environment was facing numerous challenges. The growth of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China.

Economic conditions in China are sensitive to global economic conditions and also have their own challenges, and our business, results of operations and financial condition are sensitive to PRC and global economic conditions. Any prolonged slowdown in the PRC or global economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

Uncertainties with respect to the PRC legal system could adversely affect us.

Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because many of these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules and interpretations (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies, rules and interpretations until sometime after the violation. In addition, any litigation in China may be protracted and may result in substantial costs and diversion of resources and management attention from the operation of our business.

RISK FACTORS

Uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance, business, financial condition and results of operations.

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law (《中華人民共和國外商投資法》), which came into effect on January 1, 2020 and replaced the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-invested Enterprise Law (《中華人民共和國外資企業法》), together with their implementation rules and ancillary regulations.

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 (《中華人民共和國外商投資法》) and relevant rules could result in material and adverse effects on us. For instance, although the Foreign Investment Law (《中華人民共和國外商投資法》) 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.

Regulation and censorship of information disseminated over the internet in China may adversely affect our business and reputation and subject us to liability for information displayed on our websites.

The PRC government has adopted regulations governing internet access and the distribution of news and other information over the internet. Under these regulations, internet content providers and internet publishers are prohibited from posting or displaying over the internet content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is reactionary, obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements may result in the revocation of licenses to provide internet content and other relevant licenses, and the closure of the concerned websites. In the past, failure to comply with such requirements has resulted in the closure of certain websites. The website operator may also be held liable for such censored information displayed on or linked to the websites. If any of our websites, including those used for our online education business, are found to be in violation of any such requirements, we may be penalized by relevant authorities, and our operations or reputation could be adversely affected.

RISK FACTORS

We are required to obtain various operating licenses and permits and to make registrations and filings for our business operations in China; failure to comply with these requirements may materially adversely affect our business and results of operations.

Under PRC laws and regulations, training schools are required to obtain a number of licenses, permits and approvals from, and make filings or complete registrations with, relevant government authorities in order to provide tutoring services. Pursuant to the Amended Private Education Law and the Draft Amended Implementation Rules, training schools, in particular those providing K-12 after school tutoring services, shall obtain the private school operation permit. The State Council Circular 80 further requires the learning centers of a training school providing K-12 after school tutoring services to make filings with the relevant education authorities.

Our business is also subject to various health, safety and other regulations that affect various aspects of our business and we must obtain various licenses and permits under these regulations for our operations. We have been making efforts to ensure compliance with applicable rules and regulations in all material respects. In addition, we follow internal guidelines to make necessary registrations and filings and obtain necessary licenses and permits on a timely basis. However, we may not be able to obtain and maintain all requisite licenses, permits, approvals and filings or pass all requisite assessments. There is also no assurance that such permits will be renewed on a timely basis, or at all. If we fail to comply with applicable legal requirements, we may be subject to fines, confiscation of the gains derived from our noncompliant operations or the suspension of our noncompliant operations, which may materially and adversely affect our business and results of operations.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders to personal liability and limit our ability to inject capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute profits to us or otherwise adversely affect us.

SAFE issued a notice in July 2014, which replaced the previous notice issued in October 2005. The 2014 SAFE notice requires PRC domestic residents, including both PRC domestic institutions and PRC domestic individual residents, to register with the local SAFE branch, currently with local bank according to Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) issued by SAFE on February 13, 2015, before establishing or controlling any company outside of China with the domestic or overseas assets or equity they legally hold for the purpose of investment, financing or conducting roundtrip investment. Such a company located outside of China is referred to in the notice as an “offshore special purpose company.” The failure of our current and future PRC resident beneficial owners to timely file or amend their SAFE registrations, if required, may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends or repay loans in foreign exchange to our company or otherwise adversely affect our business.

RISK FACTORS

We face regulatory uncertainties in China concerning our employees' participation in our share incentive plan.

In February 2012, SAFE issued the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in a Stock Incentive Plan of an Overseas Publicly-Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or Circular 7. According to Circular 7, if “PRC individuals” (meaning both PRC residents and non-PRC residents who reside in the PRC for a continuous period of not less than one year, excluding the foreign diplomatic personnel and representatives of international organizations) participate in any share incentive plan of an overseas listed company, a qualified PRC domestic agent, which could be the PRC subsidiaries of such overseas listed company, shall, among other things, file, on behalf of such individuals, an application with SAFE to conduct the SAFE registration with respect to such share incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the share purchase or share option exercise. Such PRC individuals' foreign exchange income received from the sale of shares and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in the PRC opened and managed by the PRC domestic agent before distribution to such individuals. In addition, such PRC individuals must also retain an overseas entrusted institution to handle matters in connection with the exercise of their share options and their purchase and sale of shares.

According to Circular 7, from time to time, we need to make applications or update our registration with SAFE or its local branches on behalf of our employees who are affected by our new share incentive plan or material changes in our current share incentive plan. We are in the process of making an application on behalf of the PRC individuals who participate in our company's share incentive plans with SAFE in compliance with Circular 7; however, we cannot assure you that such application will be successful. If we or the participants of our share incentive plans who are PRC citizens fail to comply with Circular 7, we and/or such participants of our share incentive plans may be subject to fines and legal sanctions. In addition, there may be additional restrictions on the ability of such participants to exercise their stock options or remit proceeds gained from sale of their stock into China, and we may be prevented from further granting share incentive awards under our share incentive plans to our employees who are PRC citizens. Such events could adversely affect our ability to retain talented employees.

The M&A rules establish complex procedures for some acquisitions of Chinese companies by foreign investors, and the NDRC Circular 11 establish certain procedures for our offshore investing activities, which could make it more difficult for us to pursue growth through acquisitions in and outside China.

In August 2006, the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration of Taxation, or the SAT, the SAMR, the China Securities Regulatory Commission, or the CSRC, and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), commonly referred to as the M&A Rules, which was amended on June 22, 2009. The M&A Rules establish procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control

RISK FACTORS

transaction in which a foreign investor takes control of a Chinese domestic enterprise. We may expand our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules 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.

Further, pursuant to the Circular 11 issued by the NDRC, outbound investment via the overseas enterprises controlled by PRC residents are subject to verification and approval, record-filing and reporting requirements to the NDRC. According to Circular 11, sensitive projects, such as outbound investment in real estate, hotels, news media, cinemas or sports club, carried out by overseas enterprises controlled by PRC residents shall obtain verification and approval from the NDRC prior to the implementation of the project. The non-sensitive projects carried out by the overseas enterprise directly controlled by PRC residents, including by means of making asset or equity investment by companies established for financing and investing, such as fund institutions, or providing financing or guarantee, shall complete record-filing with the competent authority prior to the implementation of such project. The non-sensitive projects carried out by the overseas enterprise indirectly controlled by PRC residents with the investment amount over US\$300 million shall be reported to the NDRC of relevant information by submitting an information reporting form for large-amount non-sensitive projects. See “Regulations — Administrative Measures for Outbound Investment by Enterprises” for more details on Circular 11. If we fail to comply with rules in Circular 11, we may be subject to warnings, project to be suspended for implementation or rectification within a specified time limit.

Increases in labor costs and enforcement of labor laws and regulations in the PRC may adversely affect our business, profitability and results of operations.

The economy of China has been experiencing increases in labor costs in recent years and the average wage in the PRC is expected to continue to grow. The average wage level for our employees has also increased in recent years. 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 students by increasing prices for our services, our profitability and results of operations could be materially and adversely affected.

In addition, we are required under PRC laws and regulations to participate in various government sponsored employee benefit plans, including certain social insurance and housing funds, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of our employees up to a maximum amount specified by the local government from time to time at locations where we operate our businesses. We have required all of our PRC operating entities to participate in employee benefit plans and make employee benefit payments for our employees pursuant to applicable laws and regulations. As of the date of this document, we have not received any incompliance notification from any local government regarding employee benefit payments, nor have we been sanctioned for such matters. However, we cannot assure you that we will be able to make adequate employee benefit payments for every employee in a timely manner. If we fail to make adequate employee benefit payments, we may be subject to fines, late fees and legal sanctions, and our business, financial conditions and results of operations may be adversely affected.

RISK FACTORS

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility between the RMB and foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in RMB. Under our current corporate structure, our income at the holding company level may be primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and New Oriental China and its schools and subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as direct investments, repayments of loans or investments in securities outside the PRC. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

Fluctuation in the value of the RMB may have a material adverse effect on your investment.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. We cannot assure you that Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

Our revenues and costs are mostly denominated in the RMB, and a significant portion of our financial assets are also denominated in RMB. We may rely entirely on dividends and other fees paid to us by our subsidiaries and New Oriental China and its schools and subsidiaries in China. Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares and/or ADSs. For example, a further appreciation of the RMB against the U.S. dollar would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into the RMB for such purposes. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce our reported earnings in U.S. dollars, which in turn could adversely affect the price of our Shares and/or ADSs.

Very limited hedging options 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 hedges may be limited and we may not be able to adequately hedge our exposure or at all.

RISK FACTORS

In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

The discontinuation of any preferential tax treatments currently available to us could materially and adversely affect our results of operations.

In March 2007, the National People’s Congress passed the Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), or the EIT Law, which took effect in January 2008 and was most recently amended in December 2018. The EIT Law applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises. The EIT Law provides that preferential tax treatments will be granted to industries and projects that are strongly supported and encouraged by the state, and that enterprises otherwise classified as “high and new technology enterprises strongly supported by the state” will be entitled to a preferential enterprise income tax rate. The implementation rules of the EIT Law promulgated by the State Council in December 2007, which was amended in April 2019, and other supplemental rules promulgated by the Ministry of Science and Technology, the MOF and the SAT, in April 2008 and July 2008 which were amended in January 2016 and June 2016, respectively, have stipulated new criteria for such “high and new technology enterprises,” and all enterprises which had been granted such status before the effectiveness of the EIT Law are required to be re-examined according to such new rules before they can continue to be entitled to such preferential tax treatments.

A “high and new technology enterprise” is entitled to a favorable enterprise income tax rate of 15% and such qualification is reassessed by relevant governmental authorities every three years. Five of our wholly-owned subsidiaries in China, including Beijing Pioneer Technology Co., Ltd., or Beijing Pioneer, Beijing Smart Wood Co., Ltd., or Beijing Smart Wood and three other subsidiaries, are qualified as “high and new technology enterprises.” Beijing Hewstone Technology Co., Ltd., or Beijing Hewstone, Beijing Decision Education & Consulting Co., Ltd., or Beijing Decision and other two wholly owned subsidiaries in China, are in the process of renewing their qualification of “high and new technology enterprises.” Once the renewals are completed, these subsidiaries will be eligible for a favorable enterprise income tax rate of 15% starting from January 1, 2020. Beijing New Oriental Dogwood Cultural Communications Co., Ltd., a subsidiary of our variable interest entity New Oriental China, and Kuxue Huisi Network Technology Co., Ltd, a subsidiary of our variable interest entity Beijing Xuncheng, are also qualified as “high and new technology enterprises.” Beijing Xuncheng, our variable interest entity, is also in the process of renewing its qualification of “high and new technology enterprises.” Once the renewal is completed, Beijing Xuncheng will be eligible for a favorable enterprise income tax rate of 15% starting from January 1, 2020. An enterprise that qualifies as a “software enterprise” is exempt from enterprise income tax for the two years beginning in the enterprise’s first profitable year and then is entitled to a reduced tax rate of 12.5% for the succeeding three years. Four of our wholly-owned subsidiaries in China, Beijing Jinghong Software Technology Company Limited or Beijing Jinghong, Beijing Zhiyuan Hangcheng Technology Company Limited or Beijing Zhiyuan Hangcheng, and other two subsidiaries are qualified as “software enterprises.” See “Financial Information — Taxation — PRC.”

Before September 1, 2017, under the Private Education Law and its Implementation Rules, private schools that do not require reasonable returns enjoy the same preferential tax treatment as public schools, while the

RISK FACTORS

preferential tax treatment policies applicable to private schools requiring reasonable returns shall be separately formulated by the relevant authorities under the State Council. To date, no regulations have been promulgated by the relevant authorities with regard to the preferential income tax treatment applicable to private schools requiring reasonable returns. As of May 31, 2020, 18 of our schools elected as schools not requiring reasonable returns, 39 of our schools elected as schools requiring reasonable returns and the remaining schools were not classified or registered as companies.

The Amended Private Education Law, which became effective on September 1, 2017 and was further amended on December 29, 2018, no longer uses the term “reasonable return.” Instead, under the Amended Private Education Law, sponsors of private schools may choose to establish non-profit or for-profit private schools at their own discretion, except that private schools in compulsory education area can only be registered as non-profit private schools. Pursuant to the Amended Private Education Law, non-profit private schools will be entitled to the same tax benefits as public schools, while tax policies for for-profit private schools are unclear and may be subject to PRC enterprise income tax at the rate of 25% and other taxes as if they were enterprises. As of the Latest Practicable Date, the Draft Implementation Rules for the Amended Private Education Law is still pending for approval by the State Council. Other than certain of our kindergartens, and our compulsory-education schools that are required to be non-profit schools, we intend to register all of our schools as for-profit private schools to the extent practicable under the relevant local rules and regulations.

Currently, tax treatments for private schools vary across different cities in China. Private schools in certain cities are subject to a 25% standard enterprise income tax, while in other cities, private schools are subject to a fixed amount of enterprise income tax each year as determined by the local tax authority in lieu of the 25% standard enterprise income tax or are not required to pay enterprise income tax at all.

For the year ended May 31, 2020, 93 of our schools were subject to a 25% income tax rate. The effective income tax rates were 16.64%, 26.96% and 27.46% in the fiscal years ended May 31, 2018, 2019 and 2020, respectively.

Preferential tax treatments granted to us by governmental authorities are subject to review and may be adjusted or revoked at any time in the future. The discontinuation of any preferential tax treatments currently available to us, especially to those schools in major cities, will cause our effective tax rate to increase, which will increase our income tax expenses and in turn decrease our net income.

We may be treated as a resident enterprise for PRC tax purposes under the EIT Law, which may subject us to PRC income tax for our global income and withholding for any dividends we pay to our non-PRC shareholders and ADS holders.

Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises,” and will generally be subject to the uniform 25% enterprise income tax rate for their global income. Although the term “de facto management bodies” is defined as “management bodies which has substantial and overall management and control power on the operation, human resources, accounting and assets of the enterprise,” the circumstances under which an enterprise’s “de facto

RISK FACTORS

management body” would be considered to be located in China are currently unclear. The SAT has issued a circular providing 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: (1) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (3) 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 (4) at least half of the enterprise’s directors or senior management with voting rights reside in the PRC.

In addition, the SAT issued a bulletin to provide more guidance on the implementation of the above circular. The bulletin clarified certain matters relating to resident status determination, post determination administration and competent tax authorities. It also specifies that when provided with a copy of a PRC tax resident determination certificate from a resident PRC-controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the PRC-sourced dividends, interest and royalties to the PRC-controlled offshore incorporated enterprise. Moreover, the SAT issued a bulletin in January 2014, to provide more guidance on the implementation of the above circular. This bulletin further provided that, among other things, an entity that is classified as a “resident enterprise” in accordance with the circular 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. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in 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, regardless of whether they are controlled by PRC enterprises or PRC individuals.

Most members of our management team are based in China and are expected to remain in China. Although our offshore holding companies are not controlled by any PRC company or company group, we cannot assure you that we will not be deemed to be a PRC resident enterprise under the EIT Law and its implementation rules. If we are deemed to be a PRC resident enterprise, we will be subject to PRC enterprise income tax at the rate of 25% on our global income. In that case, however, dividend income we receive from our PRC subsidiaries may be exempt from PRC enterprise income tax because the EIT Law and its implementation rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise is exempt from enterprise income tax. Accordingly, if we are deemed to be a PRC resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

In addition, if we are deemed to be a PRC resident enterprise, dividends distributed to our non-PRC entity investors by us, or the gain our non-PRC entity investors may realize from the transfer of our common shares or ADSs, may be treated as PRC-sourced income and therefore be subject to a 10% PRC withholding tax pursuant

RISK FACTORS

to the EIT Law. This could increase our and our shareholders' effective income tax rates and may require us to deduct withholding tax from any dividends we pay to our non-PRC shareholders.

Dividends we receive from our subsidiaries located in the PRC are subject to the PRC withholding tax.

The EIT Law provides that a maximum income tax rate of 20% may apply to dividends payable to non-PRC investors that are “non-resident enterprises,” to the extent such dividends are derived from sources within the PRC. The State Council has reduced such rate to 10%, in the absence of any applicable tax treaties that may reduce such rate. We are a Cayman Islands holding company and may derive our income from dividends we receive from our operating subsidiaries located in the PRC. If we are required under the EIT Law to pay income tax for any dividends we receive from our PRC subsidiaries, the amount of dividends, if any, we may pay to our shareholders and ADS holders may be materially and adversely affected.

According to the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), or the Double Taxation Arrangement (Hong Kong), which became effective in January 2007, dividends paid to enterprises incorporated in Hong Kong are subject to a withholding tax of 5% provided that a Hong Kong resident enterprise owns over 25% of the PRC enterprise distributing the dividend and can be considered as a “beneficial owner” and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Elite Concept Holdings Limited, Winner Park Limited and Smart Shine International Limited, our Hong Kong wholly-owned subsidiaries, own 100% of some of our PRC subsidiaries. Thus, dividends paid by our PRC subsidiaries to us through our Hong Kong wholly-owned subsidiaries may be subject to the 5% withholding tax if we and our Hong Kong subsidiaries are considered as “non-resident enterprises” under the EIT Law and our Hong Kong subsidiaries are considered as “beneficial owners” and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). If our Hong Kong subsidiaries are not regarded as the beneficial owners of any such dividends, they will not be entitled to the treaty benefits under the Double Taxation Arrangement (Hong Kong). As a result, such dividends would be subject to regular withholding tax of 10% as provided by the PRC domestic law rather than the favorable rate of 5% applicable under the Double Taxation Arrangement (Hong Kong).

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

In February 2015, the SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), or Bulletin 7. Pursuant to Bulletin 7, an “indirect transfer” of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Bulletin 7 does

RISK FACTORS

not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

According to Bulletin 7, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (《關於非居民企業所得稅源泉扣繳有關問題的公告》), or Bulletin 37, which came into effect and superseded Circular 698 on December 1, 2017. The Bulletin 37 further clarifies the practice and procedure of the withholding of non-resident enterprise income tax.

There is uncertainty as to the application of Bulletin 7 and Bulletin 37. As a result, we and our non-resident investors may have the risk of being taxed under Bulletin 7 and Bulletin 37 and may be required to spend valuable resources to comply with Bulletin 7 and Bulletin 37 or to establish that we or our non-resident investors should not be taxed under Bulletin 7 and Bulletin 37, which may have a material adverse effect on our financial condition and results of operations or such non-resident investors' investments in us.

If we fail to obtain and maintain the licenses and approvals required under the ambiguous regulatory environment for online education in China, our business, financial condition and results of operations may be materially and adversely affected.

The online education industry in China is still in its nascent stage. The relevant laws and regulations are relatively new and still evolving, and their interpretation and enforcement involve significant uncertainty and ambiguity. As a result, in certain circumstances it may be difficult to determine whether a certain license requirement applies to us and what actions or omissions may be deemed to be in violation of applicable laws and regulations. For example, according to the Administrative Provisions on Internet Audio-Visual Program Service, the dissemination of "Audio-visual Programs" through internet is subject to the specific license. However, due to the ambiguity of the definition of "Audio-visual Programs", there is uncertainty as to whether our online courses fall within the definition of "Audio-visual Programs" and whether we are required to obtain the License for Online Transmission of Audio-Visual Programs. On January 20, 2020, in the Q&A section of its website, the Beijing Radio and Television Bureau confirmed that online education is not subject to the License for Online Transmission of Audio-Visual Programs. In addition, pursuant to the Administrative Measures on the Production and Operation of Radio and Television Programs, the production of "Radio and Television Programs" requires the Permit for Production and Operation of Radio and TV Programs. Due to the ambiguity of the definition of "Radio and Television Programs," there is uncertainty as to whether our online courses fall within such definition. On May 4, 2018, our PRC Legal Adviser, Tian Yuan Law Firm, consulted with the Beijing Press, Publication, Radio and Television Bureau, which confirmed that online education is not subject to the Permit for Production and Operation of Radio and TV Programs. As advised by our PRC Legal Adviser, there has been no substantial change in the laws and regulations on the Permit for Production and Operation of Radio and TV Programs since the consultation in 2018.

However, we cannot assure that the competent PRC government authorities will not subsequently take a contrary view, especially in light of new regulatory developments. If the government authorities determine that

RISK FACTORS

our online tutoring services fall within the scope of business operations that require the above-mentioned licenses or other licenses or permits, we may not be able to obtain such licenses or permits on reasonable terms or in a timely manner or at all, and failure to obtain such licenses or permits may subject us to fines, legal sanctions or an order to suspend our online tutoring services.

The audit report included in this document is prepared by an auditor who is not inspected by the U.S. Public Company Accounting Oversight Board, and as such, our investors 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 due to political tensions between the United States and China may have a material adverse impact on the trading prices of our ADSs.

Our auditor, the independent registered public accounting firm that issues the audit report included in our annual reports, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. Since our auditors are located in China, a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC, and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. The PCAOB continues to be in discussions with the CSRC, and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in an issue that has vexed U.S. regulators in recent years.

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 China, 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 China, with respect to their audit work of U.S. reporting companies. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

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

RISK FACTORS

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 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.

This lack of the PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and our investors are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our reported financial information 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 China's, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress, which if passed, 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 proposed 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 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 "Kennedy Bill." On July 21, 2020, the U.S. House of Representatives approved its version of the National Defense Authorization Act for Fiscal Year 2021, which contains provisions comparable to the Kennedy Bill. If either of these bills is enacted into law, it would amend the Sarbanes-Oxley Act of 2002 to direct the SEC to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded "over-the-counter" if the auditor of the registrant's financial statements is not subject to PCAOB inspection for three consecutive years after the law becomes effective. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of the ADSs could be adversely affected, and we could be delisted if we are unable to cure the situation to meet the PCAOB inspection requirement in time. It is unclear if this proposed legislation would be enacted.

RISK FACTORS

In addition, political tensions between the United States and China have escalated due to, among other things, trade disputes, the COVID-19 outbreak, sanctions imposed by the U.S. Department of Treasury on certain officials of the Hong Kong Special Administrative Region and the central government of the PRC and the executive orders issued by U.S. President Donald J. Trump in August 2020 that prohibit certain transactions with certain Chinese companies and their applications. Rising political tensions could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, prospects, financial condition and results of operations. Furthermore, there has been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have material and adverse impact on the stock performance of China-based issuers listed in the United States, including ours.

Proceedings instituted by the SEC against PRC-based “big four” accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

Starting in 2011 the PRC-based “big four” accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law, they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through 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 Chinese 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 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 firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance 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-based “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.

RISK FACTORS

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined not to 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, U.S.-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm was 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 to be not in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of the ADSs or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of the ADSs in the United States.

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

Shareholder claims or regulatory investigation 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 (《中華人民共和國證券法》), or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct investigation 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 RELATED TO OUR SHARES, OUR ADSS AND THE LISTING

As a company applying for listing under Chapter 19C, we adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

As we are applying for a listing under Chapter 19C of the Hong Kong Listing Rules, we will not be subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, content of financial statements as well as certain other continuing obligations. In addition, in connection with the Listing, we have applied for a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO. As a result, we will adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock

RISK FACTORS

Exchange that do not enjoy those exemptions or waivers. For additional information, see “Waivers and Exemptions.”

Our Articles of Association are specific to us and include certain provisions that may be different from the requirements under the Hong Kong Listing Rules and common practices in Hong Kong. For example, Rule 19C.07(7) of the Hong Kong Listing Rules provides that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of a Qualifying Issuer, but our Articles of Association provide that at least one-third of the aggregate voting power of our Company is required to convene an extraordinary general meeting. We will put forth a resolution at our next annual general meeting to be held after the Listing to revise our Articles of Association to comply with Rule 19C.07(7) of the Hong Kong Listing Rules. Prior to the amendment to our Articles of Association, the minimum of one-third of the aggregate voting power of our Company is still required to convene an extraordinary general meeting.

Furthermore, if 55% or more of the total worldwide trading volume, by dollar value, of our Shares and ADSs over our most recent fiscal year takes place on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange will regard us as having a dual primary listing in Hong Kong and we will no longer enjoy certain exemptions or waivers from strict compliance with the requirements under the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO, which could result in us having to amend our corporate structure and Articles of Association and our incurring of incremental compliance costs.

The market price of our ADSs has been and is likely to continue to be, and the trading price of our Shares can be, volatile, which could result in substantial losses to holders of our Shares and/or ADSs.

The market price of our ADSs has been and is and is likely to continue to be volatile and could fluctuate widely in response to a variety of factors, many of which are beyond our control. The market price of our Shares, likewise, can be volatile for similar or different reasons. The market price of our ADSs and/or our Shares is likely to be highly volatile and subject to wide fluctuations in response to factors such as:

- actual or anticipated fluctuations in our operating results,
- changes in financial estimates by securities research analysts,
- changes in the economic performance or market valuation of other education companies,
- announcements by us or our competitors of material acquisitions, strategic partnerships, joint ventures or capital commitments,
- addition or departure of our executive officers,
- detrimental negative publicity about us, our competitors or our industry,

RISK FACTORS

- regulatory investigation or other governmental proceedings against us,
- substantial sales or perception of sales of our ADSs in the public market, and
- general economic, regulatory or political conditions in China and the U.S.

In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong and/or the United States may affect the volatility in the prices of and trading volumes of our Shares and/or ADSs. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in trading prices. The trading performance of other Chinese companies' securities after their offerings, including private education companies, may affect the attitudes of investors toward Chinese companies listed in Hong Kong and/or the United States, which consequently may impact the trading performance of our Shares and/or ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China, and other jurisdictions in late 2008, early 2009, the second half of 2011, mid-2015, early 2016 and early 2020, which may have a material and adverse effect on the trading price of our Shares and/or ADSs.

If securities or industry analysts publish negative reports about our business, the price and trading volume of our Shares and/or ADSs securities could decline.

The trading market for our Shares and/or ADSs will be influenced by the research reports and ratings that securities or industry analysts or ratings agencies publish about us, our business and the private education market in China in general. We do not have any control over these analysts or agencies. If one or more of the analysts or agencies who cover us downgrades us or our securities, the price of our Shares and/or ADSs may decline. If one or more of these analysts cease coverage of 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 Shares and/or ADSs or trading volume to decline.

Holders of our ADSs may have fewer rights than holders of our common shares and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying Shares represented by the ADSs in accordance with the provisions of the deposit agreement. Under our memorandum and articles of association, the minimum notice period required to convene a general meeting is seven days. When a general meeting is convened, holders of ADSs may not receive sufficient notice of a shareholders' meeting to permit withdrawal of the underlying Shares represented by their ADSs to

RISK FACTORS

allow them to cast their votes with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to holders of ADSs or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of ADSs in a timely manner, but we cannot assure that holders of ADSs will receive the voting materials in time to ensure that they can instruct the depositary to vote their ADSs. Furthermore, 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. As a result, holders of ADSs may not be able to exercise their right to vote and may lack recourse if the common shares underlying their ADSs are not voted as they requested. In addition, holders of ADSs will not be able to call a shareholders' meeting.

The right of our ADS holders to participate in any future rights offerings may be limited, which may cause dilution to holdings of our ADS holders.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to holders of our ADSs in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

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

Our ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deems it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

We are continued and registered in the Cayman Islands and conduct substantially all of our operations in China. Substantially all of our assets are located in China. All of our executive officers reside in China and some or all of the assets of those persons are located within China. As a result, it may be difficult for shareholders to effect service of process within the United States or Hong Kong in the event that they believe that their rights have been infringed under the U.S. federal securities laws, Hong Kong laws or otherwise. Even if shareholders are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render

RISK FACTORS

shareholders unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory enforcement in the Cayman Islands of judgments obtained in the Hong Kong courts or federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments).

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law (《中華人民共和國民事訴訟法》). PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our director and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

Since we are a Cayman Islands exempted company, the rights of our shareholders may be more limited than those of shareholders of a company organized in the United States or Hong Kong.

Our corporate affairs are governed by our Memorandum and Articles and by the Cayman Companies Law and the common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, 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 precedents 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 precedents in the United States or in Hong Kong. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States or Hong Kong, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States or a Hong Kong court.

As a result of all of the above, our shareholders may have more difficulties in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States or Hong Kong.

Our articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our common shares and ADSs.

Our Articles contain provisions that limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of

RISK FACTORS

directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our common shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our Shares and/or ADSs may fall and the voting and other rights of the holders of our Shares and/or ADSs may be materially and adversely affected.

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

A non-U.S. corporation, such as our company, will be a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for any taxable year if either, (1) 75% or more of its gross income for such year consists of certain types of “passive” income or (2) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce passive income or are held for the production of passive income.

Although the law in this regard is unclear, we treat our VIEs (including their subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate these entities’ operating results in our combined financial statements. If it were determined, however, that we are not the owner of our VIEs (including their subsidiaries) for U.S. federal income tax purposes, we may be or become a PFIC. Assuming that we are the owner of our VIEs (including their subsidiaries) for U.S. federal income tax purposes, and based upon the company’s current income and assets (taking into account the expected proceeds from this offering), including goodwill and other unbooked intangibles, we do not expect to be a PFIC for the current taxable year or the foreseeable future. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market value of our ADSs and common shares, the determination of whether we will be or become a PFIC will depend in large part upon the market value of our ADSs and common shares, of which we cannot control. Accordingly, fluctuations in the market price of our ADSs and/or Shares may cause us to become a PFIC for the current taxable year or future taxable years. The determination of whether we will be or become a PFIC will also depend, in part, upon the nature of our income and assets over time, which are subject to change from year to year. Because rules and PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given that we are not or will not become classified as a PFIC.

If we were to be classified as a PFIC in any taxable year, a U.S. holder in our ADSs and/or common shares may incur significantly increased U.S. income tax on gain recognized on the sale or other disposition of the ADSs or common shares and on the receipt of distributions on the ADSs or common shares to the extent such gain or distribution is treated as an “excess distribution” under U.S. federal income tax rules. Further, if we are classified as a PFIC for any year during which a U.S. Holder holds our ADSs or common shares, we will

RISK FACTORS

generally continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or common shares. U.S. Holders of our ADSs or common shares are urged to consult their tax advisors concerning the United States federal income tax consequences if we are or become classified as a PFIC.

The different characteristics of the capital markets in Hong Kong and the U.S. may negatively affect the trading prices of our Shares and/or ADSs.

Upon the Listing, we will be subject to Hong Kong and NYSE listing and regulatory requirements concurrently. The Hong Kong Stock Exchange and NYSE have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules, and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading prices of our Shares and our ADSs may not be the same, even allowing for currency differences. Fluctuations in the price of our ADSs due to circumstances peculiar to the U.S. capital markets could materially and adversely affect the price of our Shares, or vice versa. Certain events having significant negative impact specifically on the U.S. capital markets may result in a decline in the trading price of our Shares notwithstanding that such event may not impact the trading prices of securities listed in Hong Kong generally or to the same extent, or vice versa. Because of the different characteristics of the U.S. and Hong Kong capital markets, the historical market prices of our ADSs may not be indicative of the trading performance of our Shares after the Global Offering.

Exchange between our Shares and our ADSs may adversely affect the liquidity and/or trading price of each other.

Our ADSs are currently traded on the NYSE. Subject to compliance with U.S. securities law and the terms of the deposit agreement, holders of our Shares may deposit Shares with the depositary in exchange for the issuance of our ADSs. Any holder of ADSs may also withdraw the underlying Shares represented by the ADSs pursuant to the terms of the deposit agreement for trading on the Hong Kong Stock Exchange. In the event that a substantial number of Shares are deposited with the depositary in exchange for ADSs or vice versa, the liquidity and trading price of our Shares on the Hong Kong Stock Exchange and our ADSs on the NYSE may be adversely affected.

The time required for the exchange between Shares and ADSs might be longer than expected and investors might not be able to settle or effect any sale of their securities during this period, and the exchange of Shares into ADSs involves costs.

There is no direct trading or settlement between the NYSE and the Hong Kong Stock Exchange on which our ADSs and our Shares are respectively traded. In addition, the time differences between Hong Kong and New York, unforeseen market circumstances or other factors may delay the deposit of Shares in exchange of ADSs or the withdrawal of Shares underlying the ADSs. Investors will be prevented from settling or effecting the sale of their securities during such periods of delay. In addition, there is no assurance that any exchange of Shares into ADSs (and vice versa) will be completed in accordance with the timelines that investors may anticipate.

Furthermore, the depositary for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of Shares, cancellation of ADSs, distributions of cash dividends or other

RISK FACTORS

cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs and annual service fees. As a result, shareholders who exchange Shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

RISKS RELATED TO THE GLOBAL OFFERING

An active trading market for our Shares on the Hong Kong Stock Exchange might not develop or be sustained and trading prices of our Shares might fluctuate significantly.

Following the completion of the Global Offering, we cannot assure you that an active trading market for our Shares on the Hong Kong Stock Exchange will develop or be sustained. The trading price or liquidity for our ADSs on the NYSE might not be indicative of those of our Shares on the Hong Kong Stock Exchange following the completion of the Global Offering. If an active trading market of our Shares on the Hong Kong Stock Exchange does not develop or is not sustained after the Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

In 2014, the Hong Kong, Shanghai and Shenzhen Stock Exchanges collaborated to create an inter-exchange trading mechanism called Stock Connect that allows international and mainland Chinese investors to trade eligible equity securities listed in each other's markets through the trading and clearing facilities of their home exchange. Stock Connect currently covers over 2,000 equity securities trading in the Hong Kong, Shanghai and Shenzhen markets. Stock Connect allows mainland Chinese investors to trade directly in eligible equity securities listed on the Hong Kong Stock Exchange, known as Southbound Trading; without Stock Connect, mainland Chinese investors would not otherwise have a direct and established means of engaging in Southbound Trading. However, it is unclear whether and when the Shares of our Company, with a secondary listing in Hong Kong upon the Listing, will be eligible to be traded through Stock Connect, if at all. The ineligibility or any delay of our Shares for trading through Stock Connect will affect mainland Chinese investors' ability to trade our Shares and therefore may limit the liquidity of the trading of our Shares on the Hong Kong Stock Exchange.

Since there will be a gap of several days between pricing and trading of our Shares, the price of our ADSs traded on the NYSE may fall during this period and could result in a fall in the price of our Shares to be traded on the Hong Kong Stock Exchange.

The pricing of the Offer Shares will be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be about four Hong Kong business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the trading price of our Shares could fall when trading commences as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the time trading begins. In particular, as our ADSs will continue to be traded on the NYSE and their price can be volatile, any fall in the price of our ADSs may result in a fall in the price of our Shares to be traded on the Hong Kong Stock Exchange.

RISK FACTORS

There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our Shares on the Hong Kong Stock Exchange.

In connection with our initial public offering of Shares in Hong Kong, or the Hong Kong IPO, we will establish a branch register of members in Hong Kong, or the Hong Kong share register. Our Shares that are traded on the Hong Kong Stock Exchange, including those to be issued in the Hong Kong IPO and those that may be converted from ADSs, will be registered on the Hong Kong share register, and the trading of these Shares on the Hong Kong Stock Exchange will be subject to the Hong Kong stamp duty. To facilitate ADS-common share conversion and trading between the NYSE and the Hong Kong Stock Exchange, we also intend to move a portion of our issued Shares from our register of members maintained in the Cayman Islands to our Hong Kong share register.

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.2% of the greater of the consideration for, or the value of, shares transferred, with 0.1% payable by each of the buyer and the seller. See “Information about This Document and the Global Offering — Dealings and Settlement of Common Shares in Hong Kong.”

To the best of our knowledge, Hong Kong stamp duty has not been levied in practice on the trading or conversion of ADSs of companies that are listed in both the United States and Hong Kong and that have maintained all or a portion of their common shares, including common shares underlying ADSs, in their Hong Kong share registers. However, it is unclear whether, as a matter of Hong Kong law, the trading or conversion of ADSs of these dual-listed companies constitutes a sale or purchase of the underlying Hong Kong-registered common shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. If Hong Kong stamp duty is determined by the competent authority to apply to the trading or conversion of our ADSs, the trading price and the value of your investment in our Shares and/or ADSs may be affected.

Purchasers of our Shares in the Global Offering will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

The initial Offer Price of our Shares in Hong Kong is higher than the net tangible assets per Share of the outstanding Shares issued to our existing shareholders immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in terms of the pro forma net tangible asset value. In addition, we may consider offering and issuing additional Shares or equity-related securities in the future to raise additional funds, finance acquisitions or for other purposes. Purchasers of our Shares may experience further dilution in terms of the net tangible asset value per Share if we issue additional Shares in the future at a price that is lower than the net tangible asset value per Share.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY STATEMENT

This document, for which our directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the *Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong)* and the Hong Kong Listing Rules for the purpose of giving information with regard to us. Our directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

THE HONG KONG PUBLIC OFFERING AND THIS DOCUMENT

This document is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this document sets out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this document and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this document, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Representatives. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Joint Representatives (for themselves and on behalf of the Underwriters) agreeing on the pricing of the Hong Kong Offer Shares. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

Neither the delivery of this document nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this document or imply that the information contained in this document is correct as of any date subsequent to the date of this document.

PROCEDURES FOR APPLICATION FOR THE HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in “How to Apply for Hong Kong Offer Shares.”

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering.”

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in “Structure of the Global Offering.”

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her acquisition of Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Offer Shares described in this document.

No action has been taken to permit a public offering of the Offer Shares (except for a registration of Shares on a registration statement on Form F-3 to be filed with the SEC) or the general distribution of this document in any jurisdiction other than in Hong Kong or the United States. Accordingly, this document may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this document and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

COMMENCEMENT OF DEALINGS IN OUR SHARES

We expect that dealings in our Shares on the Hong Kong Stock Exchange will commence on November 9, 2020. The Shares will be traded in board lots of 10 Shares each. The stock code of our Shares will be 9901.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable our Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, our Shares or ADSs or exercising any rights attaching to our Shares. We emphasize that none of our Company, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, our Shares or ADSs or your exercise of any rights attaching to our Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our Principal Share Registrar in the Cayman Islands, and our Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Dealings in our Shares registered on our Hong Kong share register will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, our Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of our Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required).

To facilitate ADS-common share conversion and trading between the NYSE and the Hong Kong Stock Exchange, we also intend to move a portion of our issued Shares from our Cayman share register to our Hong Kong share register. It is unclear whether, as a matter of Hong Kong law, the trading of ADSs representing Shares constitutes a sale or purchase of the underlying Hong Kong-registered common shares that is subject to Hong Kong stamp duty. We advise investors to consult their own tax advisors on this matter. See “Risk Factors — Risks Relating to the Global Offering — There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs following our initial public offering in Hong Kong and listing of our common shares on the Hong Kong Stock Exchange.”

EXCHANGE RATE CONVERSION

Our reporting currency is U.S. dollars. This document contains translations of financial data in Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates solely for the convenience of the reader. Unless otherwise stated, all translations of financial data in Renminbi and Hong Kong dollars into U.S. dollars and from U.S. dollars into Renminbi in this document were made at a rate of RMB6.6962 to US\$1.00 and HK\$7.7500 to US\$1.00, the respective exchange rate on October 16, 2020 set out in the H.10 statistical release of the Federal Reserve Board.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

On October 16, 2020, the noon buying rate for Renminbi and dollars was RMB6.6962 to US\$1.00 and HK\$7.7500 to US\$1.00, respectively.

No representation is made that any amounts in Renminbi or U.S. dollars were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

If there is any inconsistency between the English version of this document and its Chinese translation, the English version shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this document and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

OTHER

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

THE LISTING

We have applied for a listing of our Shares on the Main Board under Chapter 19C (Secondary Listings of Qualifying Issuers).

We have a track record of good regulatory compliance of at least two full financial years on the NYSE as required by Rule 19C.04 of the Hong Kong Listing Rules for the purposes of our Listing.

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time.

Our ADSs are currently listed and traded on the NYSE. We also have outstanding debt securities listed and traded on The Stock Exchange of Hong Kong Limited. Other than the foregoing, no part of our Shares or loan capital is listed on or traded on any other stock exchange and no such listing or permission to list is being or proposed to be sought. All Offer Shares will be registered on the Hong Kong share register in order to enable them to be traded on the Hong Kong Stock Exchange.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES

Our register of members holding unlisted Shares and a portion of our Shares represented by the ADSs will be maintained by our Principal Share Registrar in the Cayman Islands, and our register of members holding Shares listed on the Hong Kong Stock Exchange and a portion of our Shares represented by the ADSs will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

Ownership of ADSs

An owner of ADSs may hold his or her ADSs either by means of an ADR (evidencing certificated ADSs) registered in his or her name, through a brokerage or safekeeping account, or through an account established by the depositary bank in his or her name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank, commonly referred to as the “direct registration system,” or DRS. The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the ADSs. The direct registration system includes automated transfers between the depositary bank and DTC. If an owner of ADSs decides to hold his or her ADSs through his or her brokerage or safekeeping account, he or she must rely on the procedures of his or her broker or bank to assert his or her rights as ADS owner. Banks and brokers typically hold securities such as the ADSs through clearing and settlement systems such as DTC. All ADSs held through DTC will be registered in the name of a nominee of DTC.

DEALINGS AND SETTLEMENT OF COMMON SHARES IN HONG KONG

Our Shares will trade on the Hong Kong Stock Exchange in board lots of 10 Shares. Dealings in our Shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars.

The transaction costs of dealings in our common shares on the Hong Kong Stock Exchange include:

- (a) Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- (b) SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- (c) trading tariff of HK\$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

- (d) transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;
- (e) *ad valorem* stamp duty at a total rate of 0.2% of the value of the transaction, with 0.1% payable by each of the buyer and the seller;
- (f) stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK\$2.00 and a maximum fee of HK\$100.00 per side per trade;
- (g) brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- (h) the Hong Kong share registrar will charge HK\$2.50 (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules) for each transfer of common shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

Investors must settle their trades executed on the Hong Kong Stock Exchange through their brokers directly or through custodians. For an investor who has deposited his/her common shares in his/her stock account or in his/her designated CCASS participant's stock account maintained with CCASS, settlement will be effected in CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. For an investor who holds the physical certificates, settlement certificates and the duly executed transfer forms must be delivered to his/her broker or custodian before the settlement date.

CONVERSION BETWEEN SHARES TRADING IN HONG KONG AND ADSS

In connection with the initial public offering of our Shares in Hong Kong, or the Hong Kong Public Offering, we have established a branch register of members in Hong Kong, or the Hong Kong share register, which will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members, or the Cayman share register, will continue to be maintained by our Principal Share Registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands.

All Shares offered in the Global Offering will be registered on the Hong Kong share register in order to be listed and traded on the Hong Kong Stock Exchange. As described in further detail below, holders of Shares registered on the Hong Kong share register will be able to convert these Shares into ADSs, and vice versa.

In connection with the Hong Kong Public Offering, and to facilitate fungibility and conversion between ADSs and Shares and trading between NYSE and the Hong Kong Stock Exchange, we intend to move a portion of our issued Shares from our register of members maintained in the Cayman Islands to our Hong Kong share register.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

OUR ADSS

Our ADSs are currently traded on the NYSE. Dealings in our ADSs on the NYSE are conducted in U.S. Dollars.

ADSs may be held either:

- (a) directly, by having a certificated ADS, or an American Depositary Receipt (ADR), registered in the holder's name, or by holding in the direct registration system, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto; or
- (b) indirectly, through the holder's broker or other financial institution.

The depositary for our ADSs is Deutsche Bank Trust Company Americas, whose office is located at 60 Wall Street, New York, New York 10005, United States of America.

Converting Shares trading in Hong Kong into ADSs

An investor who holds Shares registered in Hong Kong and who intends to convert them to ADSs to trade on the NYSE must deposit or have his or her broker deposit the Shares with the depositary's Hong Kong custodian, Deutsche Bank AG, Hong Kong Branch, Hong Kong, or the custodian, in exchange for ADSs.

A deposit of Shares trading in Hong Kong in exchange for ADSs involves the following procedures:

- (a) If Shares have been deposited with CCASS, the investor must transfer Shares to the depositary's account with the custodian within CCASS by following the CCASS procedures for transfer and submit and deliver a duly completed and signed letter of transmittal to the custodian via his or her broker.
- (b) If Shares are held outside CCASS, the investor must arrange to deposit his or her Shares into CCASS for delivery to the depositary's account with the custodian within CCASS, submit and deliver a duly completed and signed letter of transmittal to the custodian via his or her broker.
- (c) Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, and subject in all cases to the terms of the deposit agreement, the depositary will issue the corresponding number of ADSs in the name(s) requested by an investor and will deliver the ADSs to the designated DTC account of the person(s) designated by an investor or his or her broker.

For Shares deposited in CCASS, under normal circumstances, the above steps generally require two business days. For Shares held outside CCASS in physical form, the above steps may take 14 business days, or

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

more, to complete. Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS issuances. The investor will be unable to trade the ADSs until the procedures are completed.

Converting ADSs to Shares trading in Hong Kong

An investor who holds ADSs and who intends to convert his/her ADSs into Shares to trade on the Hong Kong Stock Exchange must cancel the ADSs the investor holds and withdraw Shares from our ADS program and cause his or her broker or other financial institution to trade such common shares on the Hong Kong Stock Exchange.

An investor that holds ADSs indirectly through a broker should follow the broker's procedure and instruct the broker to arrange for cancelation of the ADSs, and transfer of the underlying common shares from the depositary's account with the custodian within the CCASS system to the investor's Hong Kong stock account.

For investors holding ADSs directly, the following steps must be taken:

- (a) To withdraw Shares from our ADS program, an investor who holds ADSs may turn in such ADSs at the office of the depositary (and the applicable ADR(s) if the ADSs are held in certificated form), and send an instruction to cancel such ADSs to the depositary.
- (b) Upon payment or net of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, and subject in all cases to the terms of the deposit agreement, the depositary will instruct the custodian to deliver Shares underlying the canceled ADSs to the CCASS account designated by an investor.
- (c) If an investor prefers to receive Shares outside CCASS, he or she must receive Shares in CCASS first and then arrange for withdrawal from CCASS. Investors can then obtain a transfer form signed by HKSCC Nominees Limited (as the transferor) and register common shares in their own names with the Hong Kong share registrar.

For the Shares to be received in CCASS, under normal circumstances, the above steps generally require two business days. For common shares to be received outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. The investor will be unable to trade the Shares on the Hong Kong Stock Exchange until the procedures are completed.

Temporary delays may arise. For example, the transfer books of the depositary may from time to time be closed to ADS cancelations. In addition, completion of the above steps and procedures is subject to there being a sufficient number of Shares on the Hong Kong share register to facilitate a withdrawal from the ADS program directly into the CCASS system. We are not under any obligation to maintain or increase the number of Shares on the Hong Kong share register to facilitate such withdrawals.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

Depository requirements

Before the depository issues ADSs or permits withdrawal of common shares, the depository may require:

- (a) production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- (b) compliance with procedures it may establish, from time to time, consistent with the deposit agreement, including, but not limited to, presentation of transfer documents.

The depository may refuse to deliver, transfer, or register issuances, transfers and cancellations of ADSs generally when the transfer books of the depository or our Hong Kong share registrar are closed or at any time if the depository or we determine it advisable to do so.

All costs attributable to the transfer of Shares to effect a withdrawal from or deposit of common shares into our ADS program will be borne by the investor requesting the transfer. In particular, holders of common shares and ADSs should note that the Hong Kong share registrar will charge HK\$2.50 (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules) for each transfer of common shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong. In addition, holders of Shares and ADSs must pay up to US\$5.00 (or less) per 100 ADSs for each issuance of ADSs and each cancellation of ADSs, as the case may be, in connection with the deposit of Shares into, or withdrawal of Shares from, our ADS program.

SUMMARY OF EXEMPTIONS AS A FOREIGN PRIVATE ISSUER IN THE U.S.

As required by Rule 19C.14 of the Hong Kong Listing Rules, set out below is a summary of the exemptions from obligations under U.S. securities laws and NYSE rules that we enjoy as a foreign private issuer in the U.S.

Exemptions from NYSE rules

Foreign private issuers are exempted from certain corporate governance requirements of the NYSE. Foreign private issuers are permitted to follow home country practice, *i.e.*, for us, the practice of the Cayman Islands, in lieu of such corporate governance requirements, as long as they disclose any significant ways in which their corporate governance practices differ from those required under the NYSE listing standards and explain the basis for the conclusion that the exemption is applicable. Specifically, we are currently entitled to rely upon the exemptions from the requirements to:

- (a) have a majority of independent directors;
- (b) obtain shareholders' approval for all equity-compensation plans and material revisions thereto, with limited exceptions; and
- (c) hold annual meeting of shareholders for each fiscal year.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

Exemptions from SEC rules and Regulations Under U.S. Federal Securities Laws

Foreign private issuers are exempted from Regulation FD under the U.S. Exchange Act. Regulation FD provides that when a domestic U.S. issuer, or someone acting on its behalf, discloses material nonpublic information to certain persons (including securities analysts, other securities market professionals, and holders of the issuer's securities who could reasonably be expected to trade on the basis of the information), it must make simultaneous public disclosure of that information (in the case of intentional disclosure) or prompt public disclosure (in the case of non-intentional disclosure). However, the SEC expects foreign private issuers to conduct themselves in accordance with the basic principles underlying Regulation FD.

Section 16 of the U.S. Exchange Act does not apply to foreign private issuers. Therefore, directors, executive officers and 10% beneficial owners of foreign private issuers are not required to file Forms 3, 4 and 5 with the SEC, and are not required to disgorge to the issuer any profits realized from any non-exempt purchase and sale, or non-exempt sale and purchase, of the issuer's equity securities or security-based swap agreements within a period of less than six months.

Foreign private issuers are exempt from the SEC's rules prescribing the furnishing and content of proxy statements under the U.S. Exchange Act, which specify the procedures and required documentation for soliciting shareholder votes. Accordingly, foreign private issuers are not required to disclose certain information in their annual proxy statements, such as whether the work of any compensation consultant has played any role in determining or recommending the form or amount of executive and director compensation has raised a conflict of interest, and, if so, the nature of the conflict and how it is being addressed.

Foreign private issuers are also not required under the U.S. Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. issuers with securities registered under the U.S. Exchange Act. As a result, our shareholders may be afforded less protection than they would under the U.S. Exchange Act rules applicable to domestic U.S. issuers. Unlike domestic U.S. issuers, foreign private issuers are not required to file quarterly reports (including quarterly financial information) on Form 10-Q. They also are not required to use Form 8-K for current reports, and instead furnish (not file) current reports on Form 6-K with the SEC.

Annual reports on Form 10-K by domestic U.S. issuers are due within 60, 75, or 90 days after the end of the issuer's fiscal year, depending on whether the company is a "large accelerated filer," a "accelerated filer," or a "non-accelerated filer." By contrast, the deadline for foreign private issuers to file annual reports on Form 20-F is four months after the end of their fiscal year.

OUR ARTICLES OF ASSOCIATION

We are an exempted company continued and registered in the Cayman Islands with limited liability and our affairs are governed by our Memorandum and Articles of Association, the Cayman Companies Law and the common law of the Cayman Islands.

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

The laws of Hong Kong differ in certain respects from the Cayman Companies Law, and our Articles of Association are specific to us and include certain provisions that may be different from common practices in Hong Kong. For example:

- (a) Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Exchange will consider that an issuer such as us seeking a listing under Chapter 19C has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules for standards of shareholder protection if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07.
- (b) Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors to be approved by a majority of a Qualifying Issuer's (as defined in the Hong Kong Listing Rules) members or other body that is independent of the issuer's board of directors, but our Articles do not contain this or a similar provision.
- (c) Rule 19C.07(4) of the Hong Kong Listing Rules requires a Qualifying Issuer to hold a general meeting each year as its annual general meeting ("**AGM**"), but holding a general meeting each year is not specifically required under our Articles. Pursuant to Section 302 of the New York Stock Exchange Listed Company Manual ("**Section 302**"), our Company is required to hold an annual general meeting in each fiscal year. We have sought an annual exemption from the requirement of Section 302 to hold an AGM in each fiscal year for FY 2019 and 2020. As of the Latest Practicable Date, we had no intention to seek an exemption after FY 2020 from the requirement of Section 302 to hold an AGM in each fiscal year and going forward, we will comply and continue to comply with the requirements of Section 302 to hold an AGM in each fiscal year, for as long as the Shares remain listed on the Hong Kong Stock Exchange. We undertake to convene an AGM in 2021 after the Listing (the "**2021 AGM**") and to put forth a resolution at the 2021 AGM to revise the Articles to provide for 14 days' notice for any general meetings after the Listing.
- (d) Rule 19C.07(5) requires a Qualifying Issuer to give its members reasonable written notice of its general meetings, and the Articles provide that any general meetings may be called by at least seven business days' notice. While we are of the view that such notice period is reasonable and this notice period has been adopted since its listing on the NYSE in 2006, we undertake to provide at least 14 days' notice for any general meetings to be held by our Company after the Listing and to put forth a resolution at the next AGM in 2021 after the Listing to revise the Articles to provide for 14 days' notice for any general meetings after the Listing.
- (e) Pursuant to Rule 19C.07(6) of the Hong Kong Listing Rules, a member must abstain from voting to approve a matter in circumstances required by the Hong Kong Listing Rules. We undertake to put forth a resolution at the 2021 AGM to revise the Articles so that a member's right to vote is subject to the Hong Kong Listing Rules.
- (f) Rule 19C.07(7) of the Hong Kong Listing Rules requires that members holding a minority shareholding in an issuer's total number of issued shares must be able to requisition an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the

INFORMATION ABOUT THIS DOCUMENT AND THE GLOBAL OFFERING

issuer, while the minimum stake set out in the Articles is not less than 33% of the share capital of our Company and the quorum for transacting business at a general meeting is at least two shareholders holding in aggregate at least one-third of the voting share capital of our Company. We undertake to put forth resolutions at the 2021 AGM to revise the Articles, so that: (i) the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in our share capital; and (ii) the quorum for a general meeting of our Company will be lowered from the current two shareholders holding in aggregate at least one-third of the voting share capital of the Company to two shareholders holding in aggregate at least 10% of the aggregate voting share capital of the Company. Prior to the amendment to our Articles, we undertake to convene general meetings at the request of shareholders holding in aggregate not less than 10% of our voting rights, on a one vote per share basis.

Our substantial shareholder, Tigerstep, and its shareholder, Mr. Michael Minhong Yu (“**Mr. Yu**”) will give an irrevocable undertaking to our Company prior to the Listing to vote in favor of the proposed resolutions outlined above (the “**Proposed Resolutions**”). We undertake to convene an AGM each year with at least 14 days of notice after the Listing and for so long as our Company remains listed on the Hong Kong Stock exchange, in the event that the Proposed Resolutions are not approved by our shareholders, put forth the Proposed Resolutions (to the extent not yet passed) at each AGM until all of the Proposed Resolutions are passed. See “Waivers and Exemptions” and “Summary of our Constitution and Cayman Company Law” in Appendix III to this document for further details.

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as our compliance advisor, or the Compliance Advisor, upon the Listing in compliance with Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the Compliance Advisor will provide advice to us upon our request in the following circumstances:

- (a) before the publication of any regulatory announcement, circular, or financial report;
- (b) where a transaction is contemplated, including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this document or where the business activities, development or results of our Company deviate from any forecast, estimate or other information in this document;
- (d) where the Hong Kong Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Hong Kong Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full fiscal year commencing after the Listing Date.

WAIVERS AND EXEMPTIONS

In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Hong Kong Listing Rules, the SFO and the Companies (Winding Up and Miscellaneous Provisions) Ordinance and have applied for a ruling under the Takeovers Code:

<u>Rules</u>	<u>Subject matter</u>
Rule 2.07A of the Hong Kong Listing Rules	Printed Corporate Communications
Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules	Investments and Acquisitions after the Track Record Period
Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure Requirements Relating to the Accountants' Report
Rule 9.09(b) of the Hong Kong Listing Rules	Dealings in Shares prior to Listing
Rule 10.04 of and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules	Subscription for Shares by Existing Shareholders
Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules	Printed Prospectuses
Rule 13.25B of the Hong Kong Listing Rules	Monthly Return
Rule 19C.07(3) and (7) of the Hong Kong Listing Rules	Shareholder Protection Requirements
Paragraphs 13 and 26 of Appendix 1A to the Hong Kong Listing Rules and Paragraphs 11, 14 and 25 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Particulars of any Commissions, Discounts and Brokerages, Alterations of Capital and Authorized Debentures
Paragraph 29(1) of Appendix 1A to the Hong Kong Listing Rules and Paragraph 29 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance	Disclosure of Information on Subsidiaries Whose Profits or Assets Make Material Contributions to Us
Paragraph 27 of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements of Options
Paragraphs 33(2), 33(3), 46(2) and 46(3) of Appendix 1A to the Hong Kong Listing Rules	Disclosure Requirements of the Remuneration of Directors and Five Individuals Whose Emoluments Were Highest
Paragraphs 41(4) and 45 of Appendix 1A to and Practice Note 5 of the Hong Kong Listing Rules	Disclosure of Interests Information
Paragraph 15(2)(c) of Appendix 1A to the Hong Kong Listing Rules	Disclosure of Offer Price
Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules	Clawback Mechanism

WAIVERS AND EXEMPTIONS

<u>Rules</u>	<u>Subject matter</u>
Section 4.1 of the Introduction to the Takeovers Codes	Not a public company in Hong Kong under Takeovers Code
Part XV of the SFO	Disclosure of interests under Part XV of the SFO

PRINTED CORPORATE COMMUNICATIONS

Rule 2.07A of the Hong Kong Listing Rules provides that a listed issuer may send or otherwise make available to the relevant holders of its securities any corporate communication by electronic means, provided that either the listed issuer has previously received from each of the relevant holders of its securities an express, positive confirmation in writing or the shareholders of the listed issuer have resolved in a general meeting that the listed issuer may send or supply corporate communications to shareholders by making them available on the listed issuer's own website or the listed issuer's constitutional documents contain provision to that effect, and certain conditions are satisfied.

Our ADSs have been listed on the NYSE since 2006. We have a diverse shareholder base with ADS holders globally.

We do not currently produce or send out any corporate communications to our shareholders or holders of ADSs in printed form unless requested or in limited circumstances. We publicly file or furnish various corporate communications with the SEC which are posted on the SEC's website. Our annual reports on Form 20-F and current reports on Form 6-K and all amendments to these reports are also available free of charge on our website as soon as reasonably practicable after they are filed with or furnished to the SEC. Further, we will post our proxy materials and notices to our shareholders and holders of ADSs on a publicly accessible website. In addition, the depositary bank which administers our ADS program will send a notice as well as an ADS voting instruction card to our ADS holders.

Apart from the Hong Kong Offer Shares that we will offer for subscription by the public in Hong Kong, the International Offer Shares will be placed to professional, institutional, corporate and other investors in Hong Kong and elsewhere in the world. Given our diverse shareholder base and the potential number of countries in which our shareholders are located, we consider that it would not be practicable for us to send printed copies of all our corporate communications to all of our shareholders. Further, we consider that it would also not be practicable for us to approach our existing shareholders individually to seek confirmation from them of their wish to receive corporate communications in electronic form, or to provide them with the right to request corporate communications in printed form instead.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 2.07A of the Hong Kong Listing Rules on the conditions that we will:

- (a) issue all future corporate communications as required by the Hong Kong Listing Rules on our own website in English and Chinese, and on the Hong Kong Stock Exchange's website in English and Chinese;

WAIVERS AND EXEMPTIONS

- (b) provide printed copies of proxy materials in English to our shareholders at no costs upon request; and
- (c) ensure that the “Investor Relations” page of our website (investor.neworiental.org) will direct investors to all of our future filings with the Hong Kong Stock Exchange.

INVESTMENTS AND ACQUISITIONS AFTER THE TRACK RECORD PERIOD

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules, the accountants’ report to be included in a listing document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the listing document.

Pursuant to Rule 4.02A of the Hong Kong Listing Rules, acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to Note 4 to Rule 4.04 of the Hong Kong Listing Rules, the Hong Kong Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Hong Kong Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances and subject to certain conditions set out thereunder.

Ordinary course Investments since May 31, 2020

During the Track Record Period, we have made minority investments in a number of companies both in China and overseas in our ordinary and usual course of business to further our strategic objectives. Since May 31, 2020 and up to the Latest Practicable Date, we have made or proposed to make minority investments in a number of companies, and we expect to continue to enter into further minority investments subsequent to the Latest Practicable Date and prior to the date of the Listing Document (collectively, the “**Investments**”). Details of the Investments up to the Latest Practicable Date include:

<u>Investment⁽³⁾</u>	<u>Consideration⁽¹⁾⁽²⁾</u> <u>(in millions) (approx.)</u>	<u>Percentage of</u> <u>shareholding/equity</u> <u>interest⁽²⁾</u>	<u>Principal business</u> <u>activities</u>
Company A	RMB100.00 (approximately US\$14.02)	3.125%	Technology Business
Company B	US\$8.00	5.81%	Education Technology Business
Company C	RMB3.75 (approximately US\$0.53)	5%	Technology Business

Notes:

- (1) The above exchange rate was calculated at US\$1 to RMB7.1348 (being the exchange rate disclosed in our Form 20-F filed with the SEC on September 16, 2020).

WAIVERS AND EXEMPTIONS

- (2) The approximate consideration disclosed in the table represents each of the Investments. The percentage of shareholding/equity interest represents our total pro forma shareholding in each of the Investments after the completion of the relevant transaction.
- (3) None of the core connected persons at the level of our Company is a controlling shareholder of any of the Investments.

We confirm that the investment amounts for each of the Investments are the result of commercial arm's length negotiations, based on factors including market dynamics, a mutually agreed valuation, and/or capital need of the relevant company's operations.

Conditions for granting the waiver and its scope in respect of the Investments

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules in respect of the Investments on the following grounds:

Ordinary and usual course of business

We make equity investments in sectors relating to our business as part of our ordinary and usual course of business. We have a history of making minority investments and have conducted a number of minority investments during the Track Record Period.

The percentage ratios of each Investment are all less than 5% by reference to the most recent fiscal year of our Company's Track Record Period

The relevant percentage ratios calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules for each of the Investments are all significantly less than 5% by reference to the most recent fiscal year of the Track Record Period. We do not believe that the Investments are subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules, because (i) each of the Investments involves the acquisition of interests in a different company and (ii) the Investments were entered into, or are expected to be entered into, with different counterparties.

Accordingly, we believe that the Investments have not resulted in, and do not expect the Investments to result in, any significant changes to our financial position since May 31, 2020, and all information that is reasonably necessary for potential investors to make an informed assessment of our activities or financial position has been included in the Listing Document. As such, we consider that a waiver from compliance with the requirements under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investors.

We are not able to exercise any control over the underlying company or business

We only hold and/or will only hold a minority equity interest in each of the Investments and do not control their boards of directors, and expect this to remain the case for any subsequent Investments. We are also not involved in the day to day management of these Investments and only enjoy minority strategic shareholder rights.

WAIVERS AND EXEMPTIONS

The minority rights given to us are generally commensurate to our status as a minority shareholder and are for the protection of our interests as a minority stakeholder in the Investments. These rights are neither intended, nor sufficient to compel or require the relevant companies to prepare or to disclose in this document audited financial statements for the purposes of compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules. These disclosures are also not required pursuant to applicable U.S. securities laws. It could be prejudicial and potentially harmful to our portfolio relationships and commercial interests to make such disclosures. In addition, as some portfolio companies are private, disclosing this information could harm their interests and bring them into an unfavorable competitive position. Accordingly, as we do not expect the Investments to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would prejudice the interest of the investors.

Alternative disclosure of the Investments in this document

We have disclosed alternative information about the Investments in this document. Such information includes those which would be required for a disclosable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for example, descriptions of the relevant companies' principal business activities, the investment amounts, and a statement as to whether the core connected persons at the level of our Company is a controlling shareholder of any of the Investments. We have however excluded disclosure on the names of companies in connection with the Investments in this document because: (i) we have entered into confidentiality agreements with these companies and do not have consent for such disclosure; and/or (ii) the transactions have not been disclosed, and are not required to be disclosed, under U.S. regulations. It is commercially sensitive to disclose the identities of the companies we have invested in or propose to invest in as such information may enable our competitors to anticipate our investment strategy. Since the relevant percentage ratio of each Investment is less than 5% by reference to the most recent fiscal year of our Track Record Period, we believe the current disclosure is adequate for potential investors to form an informed assessment of us. We do not expect to use any proceeds from the Listing to fund the Investments.

WAIVERS AND EXEMPTIONS

Acquisitions since May 31, 2020

Since May 31, 2020 and up to the Latest Practicable Date, we have made or proposed to make a number of acquisitions of a majority interest in certain companies, and expect to continue to enter into further acquisitions subsequent to the Latest Practicable Date and prior to the date of the Listing Document (collectively, the “Acquisitions”). Details of the Acquisitions up to the Latest Practicable Date include:

<u>Targets⁽²⁾</u>	<u>Consideration⁽¹⁾⁽³⁾</u>	<u>Percentage of shareholding/ equity interest⁽³⁾</u>	<u>Principal business activities</u>
	(in millions) (approx.)		
Company D	JPY285.00 (approximately US\$2.72)	100%	Education Business
Company E	RMB35.19 (approximately US\$4.93)	100%	Education Business
Company F	RMB35.00 (corresponds to US\$4.91)	100%	Education Business
Company G	RMB15.75 (corresponds to US\$2.21)	100%	Education Business

Notes:

- (1) The above exchange rate was calculated at US\$1 to JPY104.59 (being the exchange rate published on Bloomberg on the Latest Practicable Date) and US\$1 to RMB7.1348 (being the exchange rate disclosed in our Form 20-F filed with the SEC on September 16, 2020).
- (2) None of the core connected persons at the level of our Company is a controlling shareholder of any of the Acquisitions.
- (3) The approximate consideration disclosed in the table represents each of the Acquisitions after May 31, 2020. The percentage of shareholding/equity interest represents our total pro forma shareholding in each of the Acquisitions after the completion of the relevant transaction.

The acquisition amounts for each of the Acquisitions are the result of commercial arm’s length negotiations, based on factors including market dynamics, a mutually agreed valuation, and/or capital required for the target company’s operations.

Conditions for granting the waiver and its scope in respect of the Acquisitions

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules in respect of the Acquisitions on the following grounds:

The percentage ratios of each Acquisition are all less than 5% by reference to the most recent fiscal year of our Company’s Track Record Period

The relevant percentage ratios calculated in accordance with Rules 14.07 of the Hong Kong Listing Rules for the Acquisitions are all less than 5% by reference to the most recent fiscal year of the Track Record Period.

WAIVERS AND EXEMPTIONS

We do not believe that the Acquisitions are subject to aggregation under Rule 14.22 of the Hong Kong Listing Rules, because: (i) each of the Acquisitions involves the acquisition of interests in a different company; and (ii) the Acquisitions were entered into, or are expected to be entered into, with different counterparties.

Accordingly, we believe that the Acquisitions have not resulted in, and do not expect the Acquisitions to result in, any significant changes to our financial position since May 31, 2020, and all information that is reasonably necessary for the potential investors to make an informed assessment of our activities or financial position has been included in this document. As such, we consider that a waiver from compliance with Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would not prejudice the interests of the investors.

The historical financial information of the targets is not available and would be unduly burdensome to obtain or prepare

The targets in respect of the Acquisitions do not have available historical financial information that is readily available for disclosure in this document in accordance with the Hong Kong Listing Rules. In addition, it would require considerable time and resources for us and our reporting accountants to fully familiarize themselves with the management accounting policies of the targets and compile the necessary financial information and supporting documents for disclosure in this document. As such, we believe that it would be impractical and unduly burdensome for us to disclose the audited financial information of the targets as required under Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules.

In addition, having considered the Acquisitions to be immaterial and that we do not expect the Acquisitions to have any material effect on our business, financial condition or operations, we believe that it would not be meaningful and would be unduly burdensome for us to prepare and include the financial information of the targets during the Track Record Period in this document. As we do not expect the Acquisitions to result in any material changes to our financial position after the Track Record Period, we do not believe the non-disclosure of the required information pursuant to Rules 4.04(2) and 4.04(4)(a) of the Hong Kong Listing Rules would prejudice the interests of the investors.

Alternative disclosure of the Acquisitions in this document

We have provided alternative information about the Acquisitions in this document. Such information includes those which would be required for a disclosable transaction under Chapter 14 of the Hong Kong Listing Rules that our directors consider to be material, including, for example, descriptions of the targets' principal business activities, the investment amounts, and a statement as to whether the core connected persons at the level of our Company is a controlling shareholder of any of the targets. We have however excluded disclosure on the names of targets in connection with the Acquisitions because: (i) we have entered into confidentiality agreements with these companies and do not have consent for such disclosure; and/or (ii) the transactions have not been disclosed, and are not required to be disclosed, under U.S. regulations. Since the relevant percentage ratio of each Acquisition is less than 5% by reference to the most recent fiscal year of the Track Record Period, we believe the current disclosure is adequate for potential investors to form an informed assessment of us. We do not expect to use any proceeds from the Listing to fund the Acquisitions.

WAIVERS AND EXEMPTIONS

DISCLOSURE REQUIREMENTS RELATING TO THE ACCOUNTANTS' REPORT

Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance set out certain historical financial information to be included in a listing document that is not required to be disclosed under U.S. GAAP, including in particular:

- (a) balance sheet at a company level;
- (b) aging analysis of accounts receivables;
- (c) aging analysis of accounts payables; and
- (d) adjustments made to show profits of all periods in accordance with the relevant accounting standards in relation to the last fiscal year reported on.

In accordance with U.S. GAAP, we have applied the modified retrospective transition approach to account for the impact of the adoption of the new accounting standards in the Track Record Period. Under the modified retrospective method adopted by us, comparative periods in the latest consolidated financial statements are not retrospectively adjusted.

During the Track Record Period, we adopted, among other new accounting standards that did not have a material impact on our consolidated financial statements, Accounting Standards Update 2014-09 “Revenue from Contracts with Customers (Topic 606)” and related amendments and implementation guidance (“**ASC 606**”), Accounting Standards Update 2016-01 “Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”, including related technical corrections and improvements (“**ASU 2016-01**”), and Accounting Standards Update 2016-02 “Leases (Topic 842)”, including certain transitional guidance and subsequent amendments (“**ASC 842**”). The relevant accounting policies upon the adoption of these new accounting standards are disclosed in the Accountants’ Reports in Appendix I.

ASC 606 was adopted beginning June 1, 2018 using the modified retrospective method that increased retained earnings by approximately US\$1.1 million rather than retrospectively adjusting prior periods. Results for fiscal year 2019 are presented under ASC 606, while results for the comparative periods have not been adjusted and were reported in accordance with the previous revenue recognition standard under U.S. GAAP. The adoption of ASC 606 does not have any significant impact on the consolidated financial statements.

ASU 2016-01, which amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments, was adopted on June 1, 2018. After the adoption of this new accounting update in 2018, for those investments without readily determinable fair values, we elected to record these investments at cost, less impairment, if any, plus or minus subsequent adjustments for observable price changes. The adoption of ASU 2016-01 using a modified retrospective method and reclassified unrealized losses of US\$97.9 million, net of tax on investment securities which were previously accounted for as available-for-sales investments, from accumulated other comprehensive losses to the opening balance of retained earnings on June 1, 2018. The full retrospective application of ASU 2016-01 is not permitted under U.S. GAAP.

WAIVERS AND EXEMPTIONS

ASC 842 was adopted on June 1, 2019 using the modified retrospective transition approach by applying the new lease standard to all leases existing as of June 1, 2019, and no adjustments were made to the comparative periods. The consolidated balance sheets and the consolidated statements of operations and cash flows for reporting periods beginning after June 1, 2019 are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under ASC 840. The adoption of ASC 842 did not have a material impact on the consolidated statements of operations or consolidated statements of cash flows, and did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

The following alternative disclosures with respect to certain items identified above which are relevant to us have been included in this document:

- (a) disclosure of the accounting policies for the adoption of ASC 606, ASU 2016-01 and ASC 842 as well as the impact of adoption, if any, in the Accountants' Report in Appendix I to this document; and
- (b) for the new accounting standard that came into effect during the Track Record Period, the accounting policy as well as the impact of adoption, if any, to the beginning retained earnings of initial application (*i.e.*, June 1, 2017, 2018 and 2019) has been disclosed in the Accountants' Report in Appendix I in accordance with the relevant requirements under U.S. GAAP.

As this document has included the above alternative disclosures and the current disclosure in this document contains all information that is necessary for investors to make an informed assessment of our business, asset and liability, financial position, trading position, management and prospect of our Group, we believe that it would be of no material value to the Hong Kong investors and be unduly burdensome for the Accountants' Report in Appendix I to include certain required information pursuant to Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules and Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and that the non-disclosure of such information will not prejudice the interests of investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 4.04(3)(a), 4.05(2) and 4.13 of the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from strict compliance with the requirements under Paragraph 31(3)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted the exemption referred to above on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before October 29, 2020.

DEALINGS IN SHARES PRIOR TO LISTING

According to Rule 9.09(b) of the Hong Kong Listing Rules, there must be no dealing in the securities of a new applicant for which listing is sought by any core connected person of the issuer from four clear business days before the expected hearing date until listing is granted (the "**Relevant Period**").

WAIVERS AND EXEMPTIONS

We had more than 300 subsidiaries (including our consolidated affiliated entities) as of May 31, 2020, and our ADSs are widely held, publicly traded and listed on the NYSE. We consider that we are therefore not in a position to control the investment decisions of our shareholders or the investing public in the US. Solely based on public filings with the SEC as of the Latest Practicable Date, other than Mr. Michael Minhong Yu (“**Mr. Yu**”), our founder and executive Chairman, there are no other shareholders who held 10% or more of our total issued share capital.

Mr. Yu (our founder and executive Chairman) may from time to time use his interests in our Shares as security (including charges and pledges) in connection with financing activities. As of the Latest Practicable Date, Mr. Yu, including through Tigerstep Developments Limited, beneficially owned an aggregate of 19,750,272 Shares and none of his Shares was used as security.

On the basis of the above, we consider that the following categories of persons (collectively, the “**Permitted Persons**”) should not be subject to the dealing restrictions set out in Rule 9.09(b) of the Hong Kong Listing Rules:

- (a) Mr. Yu, our founder and executive Chairman, in respect of the use of his Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period (“**Category 1**”);
- (b) our directors other than Mr. Yu, and the directors and chief executives of our Significant Subsidiaries other than Mr. Yu, in respect of their respective use of the Shares as security (including, for the avoidance of doubt, using Shares as security in connection with entering into financing transactions during the Relevant Period as well as satisfying any requirements to top-up security under the terms of financing transactions entered into prior to the Relevant Period), provided that there will be no change in the beneficial ownership of the Shares at the time of entering into any such transactions during the Relevant Period (“**Category 2**”);
- (c) directors, chief executives and substantial shareholders of our non-Significant Subsidiaries and their close associates (“**Category 3**”); and
- (d) any other person (whether or not an existing Shareholder) who may, as a result of dealings, become our substantial shareholder (as defined in the Hong Kong Listing Rules) and who is not its director or chief executive, or a director or chief executive of our subsidiaries (including our consolidated affiliated entities), or their close associates (“**Category 4**”).

For the avoidance of doubt:

- (a) as the foreclosure, enforcement or exercise of other rights by the lenders in respect of a security interest over the Shares (including, for the avoidance of doubt, any security interest created pursuant

WAIVERS AND EXEMPTIONS

to any top-up of security) will be subject to the terms of the financing transaction underlying such security and not within the control of the pledgor, any change in the beneficial owner of the Shares during the Relevant Period resulting from the foreclosure, enforcement or exercise of other rights by the lenders in respect of such security interest will not be subject to Rule 9.09(b) of the Hong Kong Listing Rules; and

- (b) persons in Category 1 and Category 2 who use their respective Shares other than as described in “— Dealings in Shares prior to Listing” are subject to the restrictions under Rule 9.09(b) of the Hong Kong Listing Rules.

We believe, subject to the conditions set forth below, the dealings in our securities by our core connected persons will not prejudice the interests of the potential investors of our Company and are aligned with the principles in the Hong Kong Stock Exchange’s Guidance Letter GL42-12.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Rule 9.09(b) of the Hong Kong Listing Rules subject to the following conditions:

- (a) where Categories 1 and 2 of the Permitted Persons use the Shares as security, there will be no change in the beneficial ownership of the Shares during the Relevant Period;
- (b) Categories 3 and 4 of the Permitted Persons do not have any influence over the Global Offering and do not possess any of our non-public inside information given that such persons are not in a position with access to information that is considered material to us taken as a whole. Given the large number of our subsidiaries (including our consolidated affiliated entities) and our vast ADS holder base, we and our management do not have effective control over the investment decisions of Categories 3 and 4 of the Permitted Persons in our ADSs;
- (c) we will promptly release any inside information to the public in the United States and Hong Kong in accordance with the relevant laws and regulations of the U.S. (including the NYSE rules) and Hong Kong. Accordingly, the Permitted Persons (other than Category 1 and Category 2 persons) are not in possession of any non-public inside information of which we are aware;
- (d) we will notify the Hong Kong Stock Exchange of any breaches of the dealing restrictions by any of our core connected persons during the Relevant Period when we become aware of the same other than dealings by the core connected persons who are Permitted Persons within the permitted scopes set out above; and
- (e) prior to the Listing Date, other than within the permitted scopes set out above, our directors and chief executive and the directors and chief executives of our Significant Subsidiaries and their close associates will not deal in the Shares or the ADSs during the Relevant Period provided that such prohibited dealing in the Shares shall not include the granting, vesting, payment or exercise (as applicable) of RSUs, incentive and non-statutory options, restricted shares, dividend equivalents, and share payments under our Group’s share incentive plans.

WAIVERS AND EXEMPTIONS

SUBSCRIPTION FOR SHARES BY EXISTING SHAREHOLDERS

Rule 10.04 of the Hong Kong Listing Rules requires that existing shareholders may only subscribe for or purchase any securities for which listing is sought that are being marketed by or on behalf of a new applicant either in his/her/its own name or through nominees if the conditions in Rule 10.03 of the Hong Kong Listing Rules are fulfilled. Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules states that, without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to be made to directors, existing shareholders of a listing applicant or their close associates, unless the conditions set out in Rules 10.03 and 10.04 of the Hong Kong Listing Rules are fulfilled.

The Hong Kong Stock Exchange's Guidance Letter HKEX-GL85-16 provides that the Hong Kong Stock Exchange will consider granting a waiver from Rule 10.04 of the Hong Kong Listing Rules and consent pursuant to Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules, allowing an applicant's existing shareholders or their close associates to participate in an initial public offering if any actual or perceived preferential treatment arising from their ability to influence the applicant during the allocation process can be addressed.

As a company listed on the NYSE, we are not in a position to prevent any person or entity from acquiring our listed securities prior to the allocation of shares in connection with the Global Offering. It would therefore be unduly burdensome for us to seek the prior consent of the Hong Kong Stock Exchange for each of our existing shareholders or their close associates who subscribe for Shares in the Global Offering. Since we do not require shareholders' approval in order to proceed with the Global Offering, any persons (other than our directors and senior management) who may, as a result of dealings, become our shareholders (together, the **"Permitted Existing Shareholders"**) would have no influence over the Global Offering and would not be in possession of any non-public inside information and would therefore effectively be in the same position as any of the public investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 10.04 of and Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules in respect of the restriction on Permitted Existing Shareholders to subscribe for or purchase Shares in the Global Offering, subject to the following conditions:

- (a) each Permitted Existing Shareholder is interested in less than 5% of our issued share capital immediately before the Listing;
- (b) each Permitted Existing Shareholder is neither our director nor member of the senior management of our Company and its Significant Subsidiaries;
- (c) the Permitted Existing Shareholders do not have the power to appoint directors or any other special rights in us;
- (d) the Permitted Existing Shareholders do not have influence over the offering process and will be treated the same as other applicants and placees in the Global Offering;

WAIVERS AND EXEMPTIONS

- (e) the Permitted Existing Shareholders and their close associates will be subject to the same book-building and allocation process as other investors in the Global Offering; and
- (f) we, the Joint Representatives and the Joint Sponsors, to the best of our knowledge and belief (and based on discussions between us and the Joint Representatives and confirmations required to be submitted to the Hong Kong Stock Exchange by us and the Joint Representatives), will or have confirmed to the Hong Kong Stock Exchange in writing that no preferential treatment will be given to the Permitted Existing Shareholders and their close associates as a placee in the International Offering by virtue of their relationship with us.

Allocation to the Permitted Existing Shareholders and/or their close associates will not be disclosed in our allotment results announcement (other than to the extent that such Permitted Existing Shareholders or close associates subscribe for shares as cornerstone investors) unless such Permitted Existing Shareholders are interested in 5% or more of our issued share capital after the Global Offering as disclosed in any public filings with the SEC, as it would be unduly burdensome for us to disclose such information given that there is no requirement to disclose interests in equity securities under the U.S. Exchange Act unless the beneficial ownership of such person (including directors and officers of the company concerned) reaches more than 5% of equity securities registered under Section 12 of the U.S. Exchange Act.

PRINTED PROSPECTUSES

Pursuant to Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules, we are required to make available copies of this document in printed form.

We do not intend to provide printed copies of this document or of the white and yellow application forms to the public in relation to the Hong Kong Public Offering. A fully electronic application process with a paperless prospectus and application forms is in line with the initiatives and the amendments proposed under the consultation paper issued by the Hong Kong Stock Exchange titled *Proposals to Introduce a Paperless Listing & Subscription Regime, Online Display of Documents and Reduction of the Types of Documents on Display* dated July 2020 (the “**July 2020 Consultation Paper**”). Further, electronic, in lieu of printed, prospectuses and application forms will help mitigate the environmental impact of printing, including the exploitation of natural resources, in line with recent amendments to the Hong Kong Listing Rules relating to environmental, social and governance matters. As the Hong Kong Stock Exchange noted on page 5 of the July 2020 Consultation Paper, “*printed form listing documents have been rendered out-of-date with the advancement of technology*” and that “*it is more environmentally friendly and cost efficient to require issuers to only publish listing documents online and list on the Exchange by electronic means.*”

We also note that in light of the severity of the ongoing COVID-19 pandemic, the provision of a printed prospectus and printed white and yellow application forms will elevate the risk of contagion of the virus through printed materials. As of the Latest Practicable Date, the government of Hong Kong continued to have in place social distancing measures to restrict public gatherings. While it is not possible to accurately predict the development of the COVID-19 pandemic as of the Latest Practicable Date, in this uncertain environment, a fully

WAIVERS AND EXEMPTIONS

electronic application process will reduce the need for prospective investors to gather in public in connection with the Hong Kong Public Offering.

We have adopted a fully electronic application process for the Hong Kong Public Offering and will not provide printed copies of this document or printed copies of any application forms to the public in relation to the Hong Kong Public Offering. Our Hong Kong Share Registrar has implemented enhanced measures to support **White Form eIPO** Service, including increasing its server capacity and making available a telephone hotline to answer investors' queries in connection with the fully electronic application process. For details of the telephone hotline and the application process, please see "How to Apply for Hong Kong Offer Shares."

We will publish the formal notice with respect to our Hong Kong Public Offering on the official websites of the Hong Kong Stock Exchange and our Company and in selected English and Chinese local newspapers describing the fully electronic application process including the available channels for share subscription and the enhanced support provided by our Hong Kong Share Registrar in relation to the Hong Kong Public Offering and reminding investors that no printed prospectuses or application forms will be provided.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 12.04(3), 12.07 and 12.11 of the Hong Kong Listing Rules in respect of providing copies of this document in printed form based on our specific and prevailing circumstances.

MONTHLY RETURN

Rule 13.25B of the Hong Kong Listing Rules requires a listed issuer to publish a monthly return in relation to movements in our equity securities, debt securities and any other securitized instruments, as applicable, during the period to which the monthly return relates.

Under the Joint Policy Statement, this common waiver is subject to the condition that the issuer can meet one of the following three conditions:

- (a) it has received a relevant partial exemption from Part XV of the SFO; or
- (b) it publishes a "next day disclosure return" in strict compliance with Rule 13.25A of the Hong Kong Listing Rules, regardless of the waiver of general effect from Rule 13.25B of the Hong Kong Listing Rules for secondary listed issuers; or
- (c) it is subject to overseas laws or regulations that have a similar effect to Rule 13.25B of the Hong Kong Listing Rules and any differences are not material to shareholder protection.

As we have obtained a partial exemption from strict compliance with Part XV of the SFO from the SFC, we have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the continuing obligations under Rule 13.25B of the Hong Kong Listing Rules. We will disclose information about share repurchases, if material, in our quarterly earnings releases and annual reports on Form 20-F which are furnished or filed with the SEC in accordance with applicable U.S. rules and regulations.

WAIVERS AND EXEMPTIONS

SHAREHOLDER PROTECTION REQUIREMENTS

For an overseas issuer seeking a secondary listing on the Hong Kong Stock Exchange, Rule 19.30(1)(b) of the Hong Kong Listing Rules requires the Hong Kong Stock Exchange to be satisfied that the overseas issuer's primary listing is or is to be on an exchange where the standards of shareholder protection are at least equivalent to those provided in Hong Kong. Rule 19C.06 of the Hong Kong Listing Rules provides that Appendices 3 and 13 to the Hong Kong Listing Rules do not apply to an overseas issuer that is a Non-Greater China Issuer (as defined in the Hong Kong Listing Rules) or a Grandfathered Greater China Issuer seeking a secondary listing under Chapter 19C of the Hong Kong Listing Rules. Rule 19C.07 of the Hong Kong Listing Rules provides that the Hong Kong Stock Exchange will consider that a Grandfathered Greater China Issuer seeking a secondary listing has met the requirements of Rule 19.30(1)(b) of the Hong Kong Listing Rules if it has met the shareholder protection standards by reference to eight criteria set out in Rule 19C.07 of the Hong Kong Listing Rules.

We are a Grandfathered Greater China Issuer under Chapter 19C of the Hong Kong Listing Rules.

Approval, removal and remuneration of auditors

Rule 19C.07(3) of the Hong Kong Listing Rules requires the appointment, removal and remuneration of auditors to be approved by a majority of the Qualifying Issuer's (as defined in the Hong Kong Listing Rules) members or other body that is independent of the issuer's board of directors (the "**Auditors Provision**").

Our Articles do not contain an equivalent Auditors Provision. Pursuant to our Articles, the Board has the power to appoint, remove and remunerate the auditors instead. Although the Board has such a power, it has formally delegated this function to our audit committee (the "**Audit Committee**") since our listing on the NYSE in September 2006.

The Audit Committee is akin to an independent body of the Board on the basis of the independence requirements set out in applicable U.S. laws and the NYSE rules. The Audit Committee comprises of three members, all of whom are independent directors as required by the U.S. Exchange Act and applicable NYSE rules. See "Directors and Senior Managers - Board Committees - Audit Committee" for the current members of the Audit Committee, each of whom has further confirmed his "independence" under the Hong Kong Listing Rules with reference to the factors set out in Rule 3.13 of the Hong Kong Listing Rules.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 19C.07(3) of the Hong Kong Listing Rules.

Requisition of extraordinary general meetings of shareholders

Rule 19C.07(7) of the Hong Kong Listing Rules requires that members holding a minority shareholding in an issuer's total number of issued shares must be able to requisition an extraordinary general meeting and add resolutions to a meeting agenda. The minimum stake required to do so must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of the issuer. The minimum stake as currently set out in our Articles is not less than 33% of the our share capital and the quorum for transacting business at a general meeting is at least two shareholders holding in aggregate at least one-third of our voting shares.

WAIVERS AND EXEMPTIONS

We will amend the Articles after the Listing to comply with Rule 19C.07(7) of the Hong Kong Listing Rules.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 19C.07(7) of the Hong Kong Listing Rules, subject to the following conditions:

- (a) we will put forth resolutions at or before the next AGM in 2021 after the Listing (the “**2021 AGM**”), and giving at least 14 days’ notice to our members of the 2021 AGM, to revise our Articles, so that (sub-Paragraphs (i) to (iv) below shall collectively be the “**Proposed Resolutions**”):
 - (i) we are required to convene an AGM each year;
 - (ii) we are required to provide at least 14 days’ notice for any of our general meetings;
 - (iii) the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda will be 10% of the voting rights, on a one vote per share basis, in our share capital; and
 - (iv) the quorum for transacting business at our general meeting will be lowered from the current two shareholders holding in aggregate at least one-third of our voting share capital to two shareholders holding in aggregate at least 10% of our aggregate voting share capital (together with the resolution at sub-Paragraph (iii) above, the “**10% Requisition Resolution**”).
- (b) we obtained an irrevocable undertaking prior to the Listing from Tigerstep Developments Limited (“**Tigerstep**”), our substantial shareholder, and Mr. Yu, the shareholder of Tigerstep and our ultimate substantial shareholder, that they will use the voting rights of Mr. Yu and Tigerstep to: (i) vote in favor of the Proposed Resolutions; and (ii) in the event that any shareholder(s) holding not less than 10% of the aggregate our voting share capital request(s) for a general meeting of our Company to be convened, to (1) exercise its right as a shareholder to support the requisition and quorum; and (2) use all commercially reasonable efforts to procure other shareholders to support the requisition and quorum of such general meeting, and shall continue to do so for subsequent requests in the event that the Proposed Resolutions are not passed by shareholders in such general meeting, with effect from the Listing and to the extent that Mr. Yu and/or Tigerstep continues to control 10% or more of our voting capital.
- (c) the Board (including Mr. Yu) will undertake to us that:
 - (i) it will convene a general meeting at the request of shareholders holding not less than 10% of the voting rights, if so requested, prior to the 2021 AGM when the Proposed Resolutions are put forth for shareholders’ approval; and
 - (ii) if the shareholders do not approve the 10% Requisition Resolution at the 2021 AGM, (A) Mr. Yu will, to the extent that he continues to control 10% or more of our voting capital,

WAIVERS AND EXEMPTIONS

put forth the 10% Requisition Resolution at each subsequent AGM, and (B) the Board will continue to convene a general meeting at the request of shareholders holding not less than 10% of our voting rights until the Proposed Resolutions are approved.

- (d) our Company and our board will give an undertaking before the Listing that we will convene an AGM each year with at least 14 days of notice after the Listing, beginning from 2021 should the Listing occur in 2020, and for so long as we remain listed on the Hong Kong Stock Exchange, in the event that the Proposed Resolutions are not approved by our shareholders, put forth the Proposed Resolutions (to the extent not yet passed) at each AGM until all of the Proposed Resolutions are passed.
- (e) we will issue a press release announcing the Board's support publicly for the Proposed Resolutions each year after the Listing until the Proposed Resolutions are adopted.

PARTICULARS OF ANY COMMISSIONS, DISCOUNTS AND BROKERAGES, ALTERATIONS OF CAPITAL AND AUTHORIZED DEBENTURES

Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraphs 11 and 14 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the listing document to include the particulars of any commissions, discounts, brokerages or other special terms granted within two years immediately preceding the issue of the listing document in connection with the issue or sale of any capital of any member of the group and the particulars of any alterations of capital within two years immediately preceding the issue of the listing document.

Paragraph 25 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires particulars of the authorized debentures of our Company and our subsidiaries (including our consolidated affiliated entities) to be disclosed in this document.

We have identified 12 entities as our Significant Subsidiaries. For further details, see “History — History and Development — Significant Subsidiaries.” We had more than 300 subsidiaries (including our consolidated affiliated entities) as of May 31, 2020. We believe that it would be unduly burdensome for us to disclose this information in respect of all of our subsidiaries (including our consolidated affiliated entities) as we would have to incur additional costs and devote additional resources in compiling and verifying the relevant information for such disclosure, which would not be material or meaningful to investors.

The Significant Subsidiaries include all of our subsidiaries (including our consolidated affiliated entities) that meet the financial threshold for “significant subsidiaries” under Regulation S-X in the U.S. (*i.e.*, contributing more than 10% of our Group's total assets and income) and are representative of our business (including those that hold major assets and intellectual property rights of our Group). None of the non-Significant Subsidiaries is individually material to us in terms of its contribution to our Company's total net revenues, total net income or total assets or holds any major assets and intellectual property rights. By way of illustration, the Significant Subsidiaries (together with their controlled entities) accounted for, in aggregate, approximately 88.5% and 96.7%

WAIVERS AND EXEMPTIONS

of the total consolidated assets and net revenues of our Group as at May 31, 2020, respectively. As such, we have disclosed the particulars of the changes in our share capital and the share capital of the Significant Subsidiaries in “Statutory and General Information — Further Information About Us” in Appendix IV, and particulars of the commissions, discounts, brokerage fee and authorized debentures in respect of our Significant Subsidiaries are set out in “Statutory and General Information — Other Information—Miscellaneous” in Appendix IV.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from the requirements under Paragraphs 13 and 26 of Part A of Appendix 1 to the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from strict compliance with the requirements under Paragraphs 11, 14 and 25 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC has granted the above exemption on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before October 29, 2020.

DISCLOSURE OF INFORMATION ON SUBSIDIARIES WHOSE PROFITS OR ASSETS MAKE MATERIAL CONTRIBUTIONS TO US

Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules and paragraph 29 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the listing document to include information in relation to the name, date and country of incorporation, the public or private status and the general nature of the business, the issued capital and the proportion thereof held or intended to be held, of every company the whole of the capital of which or a substantial proportion thereof is held or intended to be held by us, or whose profits or assets make, or will make, a material contribution to the figures in the accountants’ report or the next published accounts.

We believe that it would be unduly burdensome for us to procure this information for the reasons as set out in “— Particulars of any Commissions, Discounts and Brokerages, Alteration of Capital and Authorized Debentures” above. As such, only the particulars in relation to our Significant Subsidiaries are set out in “History — History and Development — Significant Subsidiaries” and “Statutory and General Information — Further Information About Us” in Appendix IV, which should be sufficient for potential investors to make an informed assessment of our Company in their investment decisions.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraph 29(1) of Part A of Appendix 1 to the Hong Kong Listing Rules. We have applied for, and the SFC has granted, an exemption from strict compliance with the requirements under Paragraph 29 of the Third Schedule of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, to the extent not strictly met by the current disclosure in this document. The SFC exemption was granted on the conditions that: (i) the particulars of such exemption are set out in this document; and (ii) this document will be issued on or before October 29, 2020.

DISCLOSURE REQUIREMENT OF OPTIONS

Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules requires the Company to set out in the listing document particulars of any capital of any member of our group that is under option, or agreed

WAIVERS AND EXEMPTIONS

conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee.

We and our subsidiaries (including our consolidated affiliated entities) may, from time to time, adopt equity incentive plans, including: (a) our share incentive plan adopted in 2006 and which expired in 2016 (the **“2006 Share Incentive Plan”**); and (b) our share incentive plan adopted in January 2016 for the issue of up to 10,000,000 Shares (the **“2016 Share Incentive Plan”**, and together with the 2006 Share Incentive Plan, the **“Share Incentive Plans”**). These equity incentive plans, aside from those adopted by Koolearn, the our majority-controlled subsidiary that is separately listed on the Hong Kong Stock Exchange, are not subject to Chapter 17 of the Hong Kong Listing Rules pursuant to Rule 19C.11 of the Hong Kong Listing Rules. The equity incentive plans allow us and our subsidiaries (including our consolidated affiliated entities) to grant awards (including options) to employees, directors and consultants. The waiver therefore only relates to the options that are granted or may be granted under the Share Incentive Plans and disclosures relating to the equity incentive plans adopted by Koolearn (as further set out below).

Details of the 2016 Share Incentive Plan are disclosed in “Directors and Senior Management — Compensation — Share Incentive Plans.” The disclosure is substantially the same as those in our 20-F filings and comply with applicable U.S. laws and regulations. As at the Latest Practicable Date, there were no outstanding options under the Share Incentive Plans.

Our majority-controlled subsidiary, Koolearn, is separately listed on the Hong Kong Stock Exchange and has also adopted equity incentive plans, namely: (a) a pre-IPO share option scheme in July 2018 for the issue of up to 47,836,985 shares in Koolearn (the **“Koolearn Pre-IPO Share Option Scheme”**); and (b) a post-IPO share option scheme in January 2019 in accordance with Chapter 17 of the Hong Kong Listing Rules (the **“Koolearn Post-IPO Share Option Scheme”**, and collectively with the Koolearn Pre-IPO Share Option Scheme, the **“Koolearn Share Incentive Plans”**).

Details of the Koolearn Share Incentive Plans are disclosed in “Directors and Senior Management — Compensation — Koolearn Share Option Schemes.”

In addition to this disclosure, as a primary listed company on the Main Board of the Hong Kong Stock Exchange, Koolearn is required to make, and will continue to make, full disclosures in accordance with the requirements under the Hong Kong Listing Rules and/or the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applicable) for as long as its shares remain listed on the Hong Kong Stock Exchange. Full disclosures on the Koolearn Share Incentive Plans have been, and will continue to be, made to Hong Kong investors and the general public through Koolearn’s own public filings accessible on the websites of the Hong Kong Stock Exchange and Koolearn (www.koolearn.hk), and which are in full compliance of: (a) with respect to Koolearn Pre-IPO Share Option Scheme, Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules and Paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance; and (b) with respect to the Koolearn Post-IPO Share Option Scheme, Chapter 17 of the Hong Kong Listing Rules. In particular, reference is made to the prospectus issued by Koolearn on March 15, 2019 and its annual report for the fiscal year ended May 31, 2020, issued on September 14, 2020.

WAIVERS AND EXEMPTIONS

For the reasons stated above, we believe that strict compliance with the above requirements would be unduly burdensome, unnecessary and/or inappropriate for us, and would not be material or meaningful to Hong Kong investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraph 27 of Part A of Appendix 1 to the Hong Kong Listing Rules.

DISCLOSURE REQUIREMENTS OF THE REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WHOSE EMOLUMENTS WERE HIGHEST

Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information in respect of directors' emoluments during the three financial years ended May 31, 2018, 2019 and 2020. Paragraph 46(2) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include the aggregate of the remuneration paid and benefits in kind granted to the directors of the issuer in respect of the last completed financial year, and Paragraph 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires information in relation to an estimate of the aggregate remuneration and benefits in kind payable to directors in respect of the current financial year to be set out in the listing document.

Paragraph 33(3) of Part A of Appendix 1 to the Hong Kong Listing Rules requires the listing document to include information with respect to the five individuals whose emoluments were highest in the group for the year if one or more individuals whose emoluments were the highest have not been included under Paragraph 33(2) of Part A of Appendix 1 to the Hong Kong Listing Rules.

The aggregate fees, salaries and benefits paid and accrued to our directors and executive officers as a group are disclosed in "Directors and Senior Management — Compensation." We confirm that the current disclosure complies with U.S. annual reporting requirements and is in line with our disclosure in our annual reports on Form 20-F.

We believe that additional disclosure required by Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules would be unduly burdensome and would not provide additional meaningful disclosure for potential Hong Kong investors.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Paragraphs 33(2), 33(3), 46(2) and 46(3) of Part A of Appendix 1 to the Hong Kong Listing Rules, to the extent not strictly met by the current disclosure in this document.

DISCLOSURE OF INTERESTS INFORMATION

Part XV of the SFO imposes duties of disclosure of interests in shares. Paragraphs 41(4) and 45 of Part A of Appendix 1 and Practice Note 5 to the Hong Kong Listing Rules require the disclosure of interests information in respect of shareholders' and directors' interests in the listing document.

WAIVERS AND EXEMPTIONS

The U.S. Exchange Act and the rules and regulations promulgated thereunder require disclosure of interests by shareholders that are broadly equivalent to Part XV of the SFO. Relevant disclosure in respect of the substantial shareholder's interests can be found in the section headed "Major Shareholders."

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Paragraphs 41(4) and 45 of Part A of Appendix 1 and Practice Note 5 to the Hong Kong Listing Rules on the following conditions:

- (a) the SFC granting us and our shareholders a partial exemption from strict compliance with Part XV of the SFO;
- (b) we will file with the Hong Kong Stock Exchange, as soon as practicable, any declaration of shareholding and securities transactions filed with the SEC; and
- (c) we will disclose in present and future listing documents any shareholding interests as disclosed in an SEC filing and the relationship between our directors, officers, members of committees and their relationship to any controlling shareholders.

DISCLOSURE OF OFFER PRICE

Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules provides that the issue price or offer price of each security must be disclosed in this document.

We set out below the reasons for the waiver from strict compliance with Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules:

- (a) **The Public Offer Price will be determined by reference to our Company's ADS price:** As our Company's ADSs are listed and actively traded on the NYSE, it will not be appropriate for our Company to adopt the conventional pricing methods in the proposed Hong Kong Public Offering. With a view to aligning the interest of securities holders in both U.S. and Hong Kong, the Public Offer Price will be determined with reference to, among other factors, the closing price of our Company's ADSs on the NYSE on the last trading day on or before the Price Determination Date. The market price of our Company's ADSs traded on the NYSE is subject to various factors including the overall market conditions, the global economy, the industry updates, *etc.*, and is not within the control of our Company;
- (b) **Negative impact on the market price of our Company's ADSs and Offer Shares:** Setting a fixed price or a price range with a low-end offer price per Offer Share may be regarded by the investors and shareholders of our Company as an indication of the current market value of the Company's Shares, which may adversely affect the market price of the ADSs of our Company and the Offer Shares; and

WAIVERS AND EXEMPTIONS

- (c) **Compliance with Companies (Winding Up and Miscellaneous Provisions) Ordinance:** Pursuant to paragraph 10(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the price to be paid for shares subscribed for shall be specified in a prospectus. On this basis, disclosure of a maximum Public Offer Price complies with the requirements prescribed under paragraph 10(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which provides clear indication of the maximum subscription consideration which a potential investor shall pay for Hong Kong Offer Shares.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this prospectus and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the bookbuilding process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this prospectus or the International Offer Price.

We have applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Paragraph 15(2)(c) of Part A of Appendix 1 to the Hong Kong Listing Rules based on the reasons above, so that our Company will only disclose the maximum Public Offer Price for the Hong Kong Offer Shares in this document.

See “Structure of the Global Offering — Pricing and Allocation” for: (i) the time for determination of the Public Offer Price and form of its publication; and (ii) the historical prices of our ADS and trading volume on the NYSE.

CLAWBACK MECHANISM

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of the Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules such that, in the event of over-subscription, the Joint Representatives shall apply clawback mechanism as set out below following the closing of the application lists with reference to the final offering size of the Global Offering (assuming the Over-allotment Option is not exercised) based on the offer price determined on the Price Determination Date.

WAIVERS AND EXEMPTIONS

Based on the current market conditions, the Joint Representatives shall apply a clawback mechanism following the closing of the application lists on the following basis:

- (a) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 10 times or more but less than 40 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 765,900 Shares, representing 9% of the Offer Shares initially available under the Global Offering;
- (b) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 40 times or more but less than 80 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 1,021,200 Shares, representing 12% of the Offer Shares initially available under the Global Offering; and
- (c) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 80 times or more of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 2,042,400 Shares, representing 24% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate. In addition, the Joint Representatives may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

In the event the size of the Global Offering falls below HK\$8.34 billion, the aforementioned clawback waiver would no longer be applicable, and the clawback mechanism as set out in paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules would apply.

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives have the authority to reallocate all or any unsubscribed Hong Kong Public Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

See “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation.”

NOT A PUBLIC COMPANY IN HONG KONG UNDER THE TAKEOVERS CODE

Section 4.1 of the Introduction to the Takeovers Code provides that the Takeovers Code applies to “public companies in Hong Kong.” The note to Section 4.2 of the Introduction to the Takeovers Code provides that a

WAIVERS AND EXEMPTIONS

Grandfathered Greater China Issuer within the meaning of Rule 19C.01 of the Hong Kong Listing Rules with a secondary listing on the Hong Kong Stock Exchange will not normally be regarded as a public company in Hong Kong under Section 4.2 of the Introduction to the Takeovers Code. Where the bulk of trading in the shares of a Grandfathered Greater China Issuer migrates to Hong Kong such that it would be treated as having a dual-primary listing in Hong Kong pursuant to Rule 19C.13 of the Hong Kong Listing Rules, the Takeovers Code will apply to it.

We have applied for, and the SFC has granted, a ruling that our Company is not a “public company in Hong Kong” for the purposes of the Takeovers Code.

DISCLOSURE OF INTERESTS UNDER PART XV OF THE SFO

Part XV of the SFO imposes duties of disclosure of interests in the securities of companies whose securities are listed on the Hong Kong Stock Exchange on the relevant company, its substantial shareholders and its directors/chief executives. Under the U.S. Exchange Act, any person (including directors and officers of the company concerned) who acquires beneficial ownership, as determined in accordance with the rules and regulations of the SEC and which includes the power to direct the voting or the disposition of the securities, of more than 5% of a class of equity securities registered under Section 12 of the U.S. Exchange Act must file beneficial owner reports with the SEC, and such person must promptly report any material change in the information provided (including any acquisition or disposition of 1% or more of the class of equity securities concerned), unless exceptions apply. Therefore, compliance with Part XV of the SFO would subject our corporate insiders to a second level of reporting, which would be unduly burdensome to them, would result in additional costs and would not be meaningful, since the statutory disclosure of interest obligations under the U.S. Exchange Act that apply to us and our corporate insiders would provide our investors with sufficient information relating to the shareholding interests of our significant shareholders.

We have applied for, and the SFC has granted, a partial exemption from Part XV of the SFO (other than Divisions 5, 11 and 12) on the following conditions:

- (a) the bulk of trading in the Shares is not considered to have migrated to Hong Kong on a permanent basis in accordance with Rule 19C.13 of the Hong Kong Listing Rules;
- (b) the disclosures of interest filed with the SEC are also filed with the Hong Kong Stock Exchange as soon as practicable, which will then publish such disclosure in the same manner as disclosures made under Part XV of the SFO; and
- (c) we will advise the SFC if there is any material change to any of the information which has been provided to the SFC, including any significant changes to the disclosure requirements in the U.S. and any significant changes in the volume of our worldwide share turnover that takes place on the Hong Kong Stock Exchange.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	I.D. issuing countries/ territories
Michael Minhong Yu	No. 3, North Uphill Houying, Qinglong Bridge, Haidian District Beijing, China	Chinese
Chenggang Zhou	Room 401, No. 23, Lane 99, East Guoquan Road, Yangpu District Shanghai, China	Chinese
Louis T. Hsieh	Tower 2, Unit 37-B, The Harbourside 1 Austin Road West Kowloon Hong Kong	United States
Robin Yanhong Li	No. 901, Unit 1, Building 1, Area 2, Shanghe Village, Haidian District Beijing, China	Chinese
Denny Lee	4, Dianthus Road Kowloon, Hong Kong	Chinese (Hong Kong)
John Zhuang Yang	1055 River Road, Apartment 407 Edgewater NJ 07020-1360	United States

Further information about our directors and other senior management are set out in “Directors and Senior Management.”

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

Credit Suisse (Hong Kong) Limited

88th Floor, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

Merrill Lynch Far East Limited

55/F Cheung Kong Centre
2 Queen’s Road Central
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	UBS Securities Hong Kong Limited 52/F Two International Finance Centre 8 Finance Street Central Hong Kong
Joint Representatives, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	Credit Suisse (Hong Kong) Limited 88 th Floor, International Commerce Centre 1 Austin Road West Kowloon, Hong Kong
	Merrill Lynch (Asia Pacific) Limited 55/F Cheung Kong Centre 2 Queen's Road Central Central Hong Kong
	UBS AG Hong Kong Branch 52/F Two International Finance Centre 8 Finance Street Central Hong Kong
Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers	China International Capital Corporation Hong Kong Securities Limited 29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong
	Citigroup Global Markets Asia Limited <i>(in relation to the Hong Kong Public Offering only)</i> 50/F, Champion Tower 3 Garden Road Central Hong Kong
	Citigroup Global Markets Limited <i>(in relation to the International Offering only)</i> 33 Canada Square Canary Wharf London E14 5LB United Kingdom

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Joint Bookrunners and Joint Lead
Managers (in alphabetical order)**

CLSA Limited

Level 18, One Pacific Place
88 Queensway
Hong Kong

ABCI Capital Limited *(Joint Bookrunner only)*

11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

ABCI Securities Company Limited *(Joint Lead Manager only)*

10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

BOCI Asia Limited

26/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

CCB International Capital Limited

12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

CMB International Capital Limited

45/F, Champion Tower
3 Garden Road
Central
Hong Kong

**The Hongkong and Shanghai Banking Corporation
Limited**

1 Queen's Road Central
Hong Kong

ICBC International Capital Limited *(Joint Bookrunner only)*

37/F ICBC Tower
3 Garden Road
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

ICBC International Securities Limited (*Joint Lead Manager only*)

37/F ICBC Tower

3 Garden Road

Hong Kong

Macquarie Capital Limited

Level 18, One International Finance Centre

1 Harbour View Street

Central

Hong Kong

Nomura International (Hong Kong) Limited

30/F, Two International Finance Centre

8 Finance Street

Central

Hong Kong

Starwin Financial Group Limited

Room 1202, Tower Two, Lippo Centre

89 Queensway

Hong Kong

Our Legal Advisers

As to Hong Kong and U.S. laws:

Skadden, Arps, Slate, Meagher & Flom and affiliates

42nd Floor, Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

As to PRC laws:

Tian Yuan Law Firm

10/F, China Pacific Insurance Plaza B

28 Fengsheng Lane

Xicheng District, Beijing

PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to Cayman Islands laws:

Conyers Dill & Pearman

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

**Legal Advisers to the Joint Sponsors and
the Underwriters**

As to Hong Kong and U.S. laws:

Herbert Smith Freehills

23/F Gloucester Tower
15 Queen's Road Central
Central, Hong Kong

As to PRC laws:

Jia Yuan Law Offices

F408 Ocean Plaza
158 Fuxing Men Nei Street
Xicheng District
Beijing, China

Auditor*

**Deloitte Touche Tohmatsu Certified
Public Accountants LLP**

12/F China Life Financial Center
No. 23 Zhenzhi Road
Chaoyang District
Beijing 100026, PRC

Deloitte Touche Tohmatsu

Certified Public Accountants
Registered Public Interest Entity Auditor
35/F One Pacific Place
88 Queensway
Hong Kong

* Deloitte Touche Tohmatsu Certified Public Accountants LLP is currently the auditor of the Company's consolidated financial statements that are prepared in conformity with U.S. GAAP. After the Listing, Deloitte Touche Tohmatsu in Hong Kong will be engaged by the Company to be the auditor of the Company's U.S. GAAP financial statements, which will be included in the annual report to be filed with the SEC and the annual report to be published in Hong Kong.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Reporting Accountant

Deloitte Touche Tohmatsu

Certified Public Accountants

Registered Public Interest Entity Auditor

35/F One Pacific Place

88 Queensway

Hong Kong

Industry Consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.

1018, Tower B

500 Yunjin Road

Shanghai, 200232, China

Receiving Bank

Industrial and Commercial Bank of China (Asia) Limited

33/F, ICBC Tower

3 Garden Road

Central

Hong Kong

CORPORATE INFORMATION

Registered Office	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal Executive Offices of Main Operations	No. 6 Hai Dian Zhong Street Haidian District Beijing 100080, China
Address in Hong Kong	Room 4308B, 43/F, AIA Tower, 183 Electric Road, North Point, Hong Kong
Company's Website	http://investor.neworiental.org/ <i>(The information on the website does not form part of this document)</i>
Authorized Representatives	Chong Lang Kan Elite Concept Holdings Limited, Room 4308B, 43/F, AIA Tower, 183 Electric Road, North Point, Hong Kong
Cayman Islands Principal Share Registrar	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Branch Share Registrar	Computershare Hong Kong Investor Services Limited Room 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Compliance Advisor	Guotai Junan Capital Limited 27/F Millennium Plaza 181 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Principal Banks

Bank of Beijing

Shuohuang Development Building, No. 6
Caihefang Road, Haidian District
Beijing, China

China Guangfa Bank

No. 713, East Dongfeng Road
Yuxiu District, Guangzhou
Guangdong, China

China Merchants Bank, Head Office, Shenzhen

China Merchants Bank Tower
No. 7088, Shennan Boulevard
Shenzhen, China

HISTORY

HISTORY AND DEVELOPMENT

Overview

We commenced our business in Beijing, China, in 1993, when our founder and executive Chairman, Michael Minhong Yu, established our first school. We have since grown to become the largest private educational service provider in China in terms of total net revenues and number of schools and learning centers for the fiscal year ended May 31, 2020 according to Frost & Sullivan.

Our Company is a holding company first incorporated in the BVI on August 18, 2004 and subsequently redomiciled to and continued in the Cayman Islands on March 16, 2006 as an exempted company under the laws of the Cayman Islands. Except for our online education business, which is operated by our majority-owned subsidiary, Koolearn, and its subsidiaries and consolidated variable interest entities, substantially all of our operations are conducted in China through our subsidiaries and variable interest entities.

Milestones

The following is a summary of our key milestones:

Date	Event
1993	Our first school was established by Michael Minhong Yu, our executive Chairman, in Beijing, China.
2001	We established New Oriental China as a domestic holding company to act as the sponsor of our schools and hold certain operating subsidiaries.
2004	In August, we established the Company in the BVI, as our offshore holding company. We were subsequently redomiciled to and continued in the Cayman Islands in March 2006.
2006	In September, we and certain selling shareholders of our Company completed an initial public offering and listed our ADSs on the NYSE under the symbol “EDU.”
2007	In February, we and certain selling shareholders of our Company completed an additional public offering of ADSs. In December, we established Elite Concept, the first of our three wholly-owned subsidiaries in Hong Kong, which now directly own our wholly-owned subsidiaries in China.
2017	In March, Beijing Xuncheng, a then majority-owned subsidiary of New Oriental China, which operates our several online education platforms together with its subsidiaries, one of which is koolearn.com, listed its shares on the National Equities Exchange and Quotations in China for trading.
2018	In February, Beijing Xuncheng completed a voluntary delisting from the National Equities Exchange and Quotations, after which it went through a series of restructuring transactions and became a variable interest entity controlled by Koolearn.
2019	In March, Koolearn completed its initial public offering and listing of its shares on the Main Board of the Hong Kong Stock Exchange (stock code: 1797).
2020	In July, we completed an offering of US\$300 million aggregate principal amount of 2.125% notes due 2025.

HISTORY

Significant Subsidiaries

The principal business activities and date of establishment of each of our Significant Subsidiaries are shown below:

Subsidiaries	Principal Business Activities	Date and Jurisdiction of Establishment
Beijing Decision	A subsidiary of Elite Concept primarily engaged in providing educational technology and management services	April 20, 2005, PRC
Beijing Hewstone	A subsidiary of Elite Concept primarily engaged in educational software development	April 20, 2005, PRC
Beijing Pioneer	A subsidiary of Smart Shine primarily engaged in educational software development	January 8, 2009, PRC
Beijing Smart Wood	A subsidiary of Smart Shine primarily engaged in educational software development and consulting	December 21, 2011, PRC
Elite Concept	A direct subsidiary of the Company primarily engaged in educational consulting	December 3, 2007, Hong Kong
Winner Park	A direct subsidiary of the Company primarily engaged in educational consulting	December 9, 2008, Hong Kong
Smart Shine	A direct subsidiary of the Company primarily engaged in educational consulting	December 9, 2008, Hong Kong
Koolearn	A direct subsidiary of the Company primarily engaged in providing online education services	February 7, 2018, Cayman Islands
New Oriental Xuncheng Technology (HK) Limited	A subsidiary of Koolearn primarily engaged in providing online education services	March 2, 2018, Hong Kong
Dexin Dongfang	A subsidiary of New Oriental Xuncheng Technology (HK) Limited primarily engaged in educational consulting and software development	March 21, 2018, PRC
New Oriental China ⁽¹⁾	Our variable interest entity primarily engaged in education consulting, software development and distributions and other services	August 2, 2001, PRC
Beijing Xuncheng	Our variable interest entity primarily engaged in providing online education services	March 11, 2005, PRC

HISTORY

Note:

- (1) New Oriental China had a number of subsidiaries and schools in the PRC as of May 31, 2020, including:
- 96 schools, excluding certain schools that are separate legal entities but have been counted to our learning centers and certain schools that have been counted as the same school in the same city or region from the perspective of our internal management and our kindergartens; and
 - 49 wholly owned subsidiaries that operate New Oriental's educational content and other technology development and distributions business, online education business and overseas studies consulting business in China.

Listing on the NYSE

On September 7, 2006, we listed our ADSs on the NYSE under the symbol "EDU."

We believe that the Listing on the Hong Kong Stock Exchange would present us with an opportunity to further expand our investor base and broaden our access to capital markets, particularly in Asia.

Listing of Koolearn

Koolearn, our subsidiary that operates our online educational services platform, was listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1797) on March 28, 2019. Upon completion of its initial public offering of 186,889,500 ordinary shares at the offer price of HK\$10.20 per share, Koolearn raised net proceeds of approximately HK\$1,787.43 million (representing the net proceeds received from its global offering and the exercise of its over-allotment option, and after deduction of the underwriting fees and commissions and estimated expenses payable by it).

CORPORATE STRUCTURE

Summary of our corporate structure

Except for our online education business, which is operated by our majority-owned subsidiary, Koolearn (together with its subsidiaries and consolidated variable interest entities), substantially all of our operations are conducted in China through contractual arrangements between our wholly-owned subsidiaries in China, New Oriental China (our variable interest entity) and New Oriental China's schools and subsidiaries and shareholder.

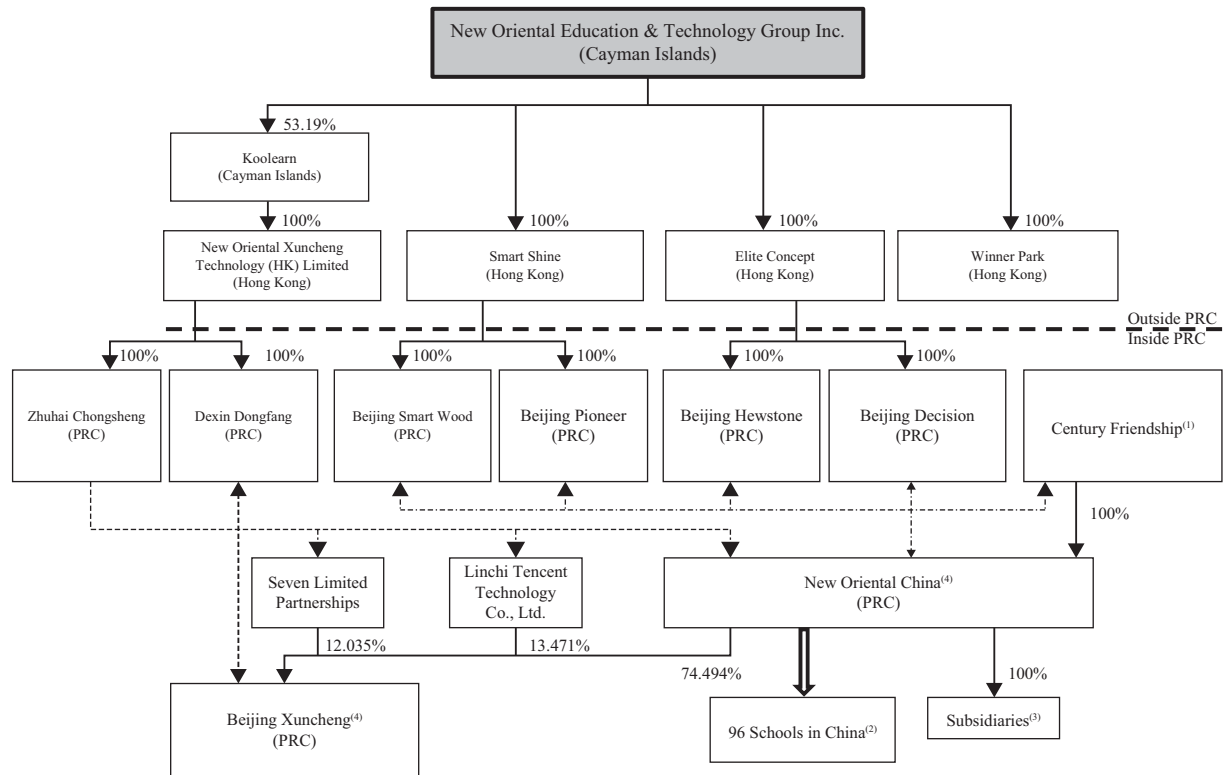
The wholly-owned subsidiaries that are currently parties to these contractual arrangements are:

- Beijing Hewstone, which is primarily engaged in educational software development businesses and also sub-licenses our trademarks to New Oriental China and its schools and subsidiaries;
- Beijing Decision, which is primarily engaged in the business of providing educational technology services and educational management services;
- Beijing Pioneer, which is primarily engaged in the educational software development business; and

HISTORY

- Beijing Smart Wood, which is primarily engaged in the educational software development and consulting business.

The following diagram sets out details of our significant subsidiaries and New Oriental China and its schools and subsidiaries as at September 7, 2020:



- Equity interest for companies.
- ⇒ Sponsorship interest for schools and kindergartens.
- - - - - → Contractual arrangements including equity pledge agreements, option agreement and proxy agreement, power of attorney, master exclusive service agreement and related service agreements. See “— Contractual Arrangements — Contractual Arrangements with New Oriental China” below.
- - - - - → Contractual arrangements including equity pledge agreements, option agreement and proxy agreement, power of attorney, master exclusive service agreement and related service agreements. See “— Contractual Arrangements — Contractual Arrangements with Beijing Xuncheng” below.

Notes:

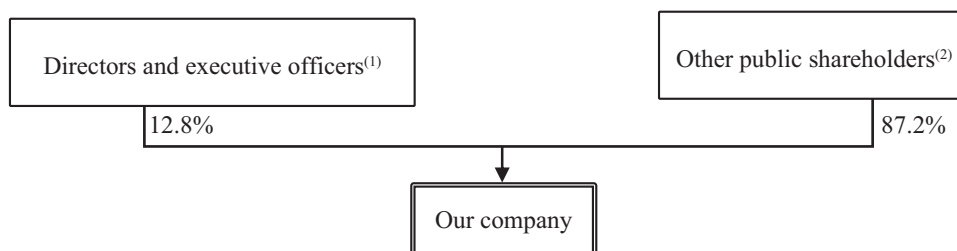
- (1) Century Friendship is 99% owned by Mr. Michael Minhong Yu, our founder and executive chairman, and 1% owned by Mr. Zhihui Yang, our chief financial officer. In November 2019, Ms. Bamei Li, Mr. Yu’s mother, completed the transfer of the equity interest in Century Friendship held by her to Mr. Michael Minhong Yu and Mr. Zhihui Yang, prior to such transfer, Century Friendship was 80% owned by Mr. Yu and 20% owned by Ms. Bamei Li.

HISTORY

- (2) Excluding certain schools that are separate legal entities but have been counted to our learning centers and certain schools that have been counted as the same school in the same city or region from the perspective of our internal management and our kindergartens.
- (3) Consisting of various PRC companies operating our educational content and other technology development and distribution business, and overseas studies consulting business in China.
- (4) Our variable interest entities.
- (5) Beijing Xuncheng's equity interests are held by: (i) New Oriental China (as to 74.49%), (ii) Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司) (as to 13.47%), a subsidiary of Shenzhen Tencent Industry Investment Fund Co., Ltd. (深圳市騰訊產業投資基金有限公司), and (iii) Tianjin Xuncheng Yiyue Technology Partnership (L.P.) (天津迅程壹月科技合夥企業 (有限合夥)), Tianjin Xuncheng Luyue Technology Partnership (L.P.) (天津迅程陸月科技合夥企業 (有限合夥)), Tianjin Xuncheng Bayue Technology Partnership (L.P.) (天津迅程捌月科技合夥企業 (有限合夥)), Tianjin Xuncheng Jiuyue Technology Partnership (L.P.) (天津迅程玖月科技合夥企業 (有限合夥)), Tianjin Xuncheng Shiyue Technology Partnership (L.P.) (天津迅程拾月科技合夥企業 (有限合夥)), Tianjin Xuncheng Shieriyue Technology Partnership (L.P.) (天津迅程拾貳月科技合夥企業 (有限合夥)), and Tianjin Xuncheng Shisanyue Technology Partnership (L.P.) (天津迅程拾叁月科技合夥企業 (有限合夥)) (collectively, the "**Tianjin Limited Partnerships**", which hold the remaining 12.03% in Beijing Xuncheng).

Shareholding structure

The following diagram illustrates our shareholding structure as at the Latest Practicable Date:

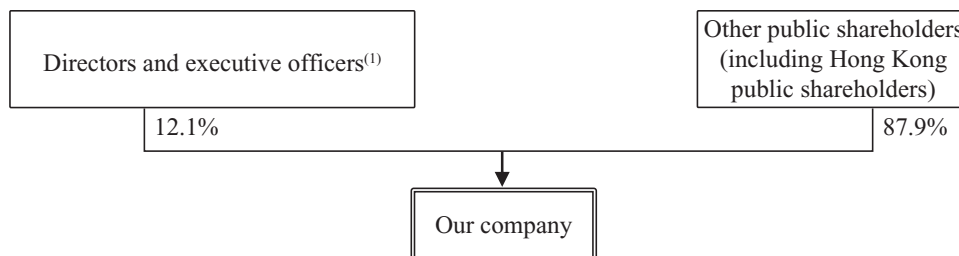


Notes:

- (1) Based on the latest publicly available information filed with the SEC, checked as at the Latest Practicable Date. Represents an aggregate of 20,450,883 Shares, of which an aggregate of 19,750,272 Shares are beneficially held by Mr. Michael Minhong Yu ("**Mr. Yu**"), including held through Tigerstep Developments Limited ("**Tigerstep**"), representing approximately 12.3% of our total issued share capital, being 160,379,387 Shares as at the Latest Practicable Date, of which 159,110,715 were outstanding Shares based on publicly available information accessible as at the Latest Practicable Date, with the remaining issued Shares being bulk Shares issued for the purpose of the Share Incentive Plans and not yet allocated to ADS holders. See "Major Shareholders" for more information. Immediately following the Global Offering, Mr. Yu, including through Tigerstep, will hold an approximately 11.7% interest in our Company (assuming the Over-allotment is not exercised and no additional Shares are issued under the Share Incentive Plans).
- (2) The percentages are calculated based on the total issued share capital of our Company as at the Latest Practicable Date.

HISTORY

The following diagram illustrates our shareholding structure immediately upon the completion of the Global Offering (assuming all major shareholders' shareholding remain unchanged as of the Latest Practicable Date, the Over-allotment Option is not exercised, and no additional Shares are issued under the Share Incentive Plans):



See the Notes to the previous shareholding structure.

CONTRACTUAL ARRANGEMENTS

Contractual arrangements with New Oriental China

Regulation on Operating Sino-foreign Cooperative Schools of the PRC (《中華人民共和國中外合作辦學規定》) and its implementing measures generally restrict foreign ownership in tutoring schools, especially tutoring schools that provide K-12 after-school education, to Sino-foreign cooperation ownership. In addition, according to the Negative List, foreign ownership of kindergartens and high schools for students in grade ten to twelve is restricted to Sino-foreign cooperation ownership while foreign ownership of primary and middle schools for students in grades one to nine is prohibited. Regulation on Operating Sino-foreign Cooperative Schools of the PRC also provides that foreign owners shall meet certain qualification requirements. Our offshore holding companies do not meet such qualification requirements. As a result, we conduct substantially all of our education business in China through a series of contractual arrangements with New Oriental China and its schools and subsidiaries and New Oriental China's shareholder.

New Oriental China is our variable interest entity which is directly wholly owned by Century Friendship, a PRC domestic company controlled by Michael Minhong Yu, our founder and executive chairman. New Oriental China's schools and subsidiaries hold the requisite licenses and permits necessary to conduct our education business and have been directly conducting our education business. We have been and are expected to continue to be dependent on New Oriental China and its schools and subsidiaries to operate our education business until we qualify for direct ownership of our education business in China under PRC laws and regulations and acquire New Oriental China as our direct, wholly-owned subsidiary. We have entered into contractual arrangements with New Oriental China, its schools and subsidiaries and its shareholder, which enable us to:

- (i) have power to direct the activities that most significantly affect the economic performance of New Oriental China and its schools and subsidiaries;
- (ii) receive substantially all of the economic benefits from New Oriental China and its schools and subsidiaries in consideration for the services provided by our wholly-owned subsidiaries in China; and

HISTORY

- (iii) have an exclusive option to purchase all or part of the equity interests in New Oriental China, when and to the extent permitted by PRC law, or request the existing shareholder of New Oriental China to transfer all or part of the equity interest in New Oriental China to another PRC person or entity designated by us at any time in our discretion.

Terms of the contractual arrangements with New Oriental China

Each of the specific agreements that comprise these contractual arrangements are summarized below:

1. Equity Pledge Agreements

Pursuant to the equity pledge agreements dated as of May 25, 2006 among New Oriental China, all of the eleven shareholders of New Oriental China, Beijing Hewstone and Beijing Decision, each shareholder of New Oriental China agreed to pledge his or its equity interests in New Oriental China to Beijing Hewstone and Beijing Decision to secure the performance of the obligations of New Oriental China and its schools and subsidiaries under the existing service agreements and any such agreements to be entered into in the future. The shareholders of New Oriental China agreed not to transfer, sell, pledge, dispose of or otherwise create any encumbrance on their equity interests in New Oriental China without the prior written consent of Beijing Decision and Beijing Hewstone. All parties to the equity pledge agreement have agreed that the equity pledge agreement is binding upon New Oriental China's shareholders and their successors.

In January 2012, the ten former shareholders of New Oriental China completed the transfer of all of their equity interests in New Oriental China to Century Friendship, a PRC domestic enterprise controlled by Mr. Michael Minhong Yu, our founder and executive chairman, without consideration. Prior to the transfer, Century Friendship had held 53% of the equity interests in the New Oriental China while the ten former shareholders of New Oriental China held the remaining equity interests. The purpose of the transfers was to further strengthen our corporate structure by simplifying the shareholding structure of New Oriental China.

Pursuant to the five equity pledge agreements dated April 23, 2012 among New Oriental China, Century Friendship and five of our wholly-owned subsidiaries in China, namely Beijing Hewstone, Beijing Decision, Shanghai Smart Words, Beijing Pioneer and Beijing Smart Wood, Century Friendship agreed to pledge its equity interests in New Oriental China to these five subsidiaries to secure New Oriental China's and its schools and subsidiaries' performance of their obligations under the relevant principal agreements, and Century Friendship has agreed not to transfer, sell, pledge, dispose of or otherwise create any encumbrance on its equity interests in New Oriental China without the prior written consents of our wholly-owned subsidiaries in China. Upon the conclusion of the master exclusive service agreement on September 19, 2014 between Beijing Pioneer and New Oriental China, the list of principal agreements has been updated to include the master exclusive service agreement and the relevant service agreements. The equity pledges of Century Friendship under these equity pledge agreements have been registered with the Haidian District, Beijing branch of the SAMR. The terms of the April 2012 equity pledge agreements are substantially the same as the 2006 equity pledge agreements.

In February 2017, as part of our efforts to streamline the corporate structure, we removed Shanghai Smart Words as a party to the contractual arrangements with New Oriental China and its schools and subsidiaries and

HISTORY

shareholder. The rights and obligations of Shanghai Smart Words under these contractual arrangements have been assumed by Beijing Decision. The April 2012 equity pledge agreements have been amended to reflect the foregoing change while the other terms of these agreements remain unchanged. The equity pledges of Century Friendship under the amended agreements have been registered with the Haidian District, Beijing branch of the SAMR.

2. Exclusive Option Agreement

Exclusive option agreements were entered into by us and New Oriental China and the shareholders of New Oriental China on various dates, and amended on May 25, 2006. After the ten former shareholders of New Oriental China completed the transfer of all of their equity interests in New Oriental China to Century Friendship in early 2012, Century Friendship, as the sole shareholder of New Oriental China, executed a new option agreement with Shanghai Smart Words, one of our wholly-owned subsidiaries in China, and New Oriental China on April 23, 2012, replacing previous exclusive option agreements. On February 16, 2017, Beijing Decision entered into a new option agreement with Century Friendship and New Oriental China, replacing the previous option agreement dated April 23, 2012. Pursuant to the current option agreement, Century Friendship is obligated to sell to Beijing Decision, and Beijing Decision has an exclusive, irrevocable and unconditional right to purchase from Century Friendship, in its sole discretion, part or of all of Century Friendship's equity interests in New Oriental China when and to the extent that applicable PRC law permits it to own part or all of the equity interest in New Oriental China. In addition, Beijing Decision has an exclusive option to require Century Friendship to transfer all or part of Century Friendship's equity interest in New Oriental China to another PRC person or entity designated by Beijing Decision at any time in its discretion. The purchase price to be paid by Beijing Decision will be the minimum amount of consideration permitted by applicable PRC law at the time when such share transfer occurs.

3. Proxy Agreement and Power of Attorney

On December 3, 2012, Century Friendship, in the capacity of the sole shareholder of New Oriental China, executed a proxy agreement and power of attorney with Beijing Pioneer, one of our wholly-owned subsidiaries in China, and New Oriental China, whereby Century Friendship irrevocably appoints and constitutes Beijing Pioneer as its attorney-in-fact to exercise on Century Friendship's behalf any and all rights that Century Friendship has in respect of its equity interests in New Oriental China. This proxy agreement and power of attorney became effective on December 3, 2012 and replaces the powers of attorney executed by Century Friendship on April 23, 2012. The proxy agreement and power of attorney will remain effective as long as New Oriental China exists. Century Friendship does not have the right to terminate the proxy agreement and power of attorney or revoke the appointment of the attorney-in-fact without the prior written consent of Beijing Pioneer.

4. Service Agreements

Our wholly-owned subsidiaries in China have entered into a series of service agreements with New Oriental China and its schools and subsidiaries to enable them to receive substantially all of the economic benefits of New Oriental China and its schools and subsidiaries. On September 19, 2014, one of our wholly-

HISTORY

owned subsidiaries, Beijing Pioneer, has entered into a master exclusive service agreement, as amended, with New Oriental China to enable our wholly-owned subsidiaries in China to receive substantially all of the economic benefits of New Oriental China and its schools and subsidiaries. After the conclusion of the master exclusive service agreement, the various existing service agreements between our wholly-owned subsidiaries will remain effective; however, if they have any conflict with the terms and conditions of the master exclusive service agreement, the master exclusive service agreement will prevail.

Under the master exclusive service agreement, Beijing Pioneer has the exclusive right to provide or designate any entities affiliated with it to provide New Oriental China and its schools and subsidiaries the technical and business support services set forth in schedule 2 of the agreement, including new enrollment system development service, sale of educational software and other operating services. Each service provider has the right to determine the fees associated with the services it provides based on factors such as the technical difficulty and complexity of the services and the actual labor costs it incurs for providing the services during the relevant period. The term of this agreement is ten years and will be automatically extended upon the expiration. Beijing Pioneer may terminate the agreement at any time with a 30-day prior written notice to New Oriental China, whereas none of New Oriental China and its schools and subsidiaries can terminate this agreement. In the fiscal years ended May 31, 2018, 2019 and 2020, the total amount of service fees that our PRC subsidiaries received from New Oriental China and its schools and subsidiaries under all the service agreements was US\$252.2 million, US\$402.3 million and US\$440.3 million, respectively.

Contractual arrangements with Beijing Xuncheng

Foreign ownership in entities that provide value-added telecommunication services, with a few exceptions, is subject to restrictions under the current PRC laws and regulations. Specifically, foreign ownership of an internet content provider may not exceed 50%, and the major foreign investor is required to have a record of good performance and operating experience in managing value-added telecommunication business.

To ensure compliance with the PRC laws and regulations, our online education business is operated by our majority-owned subsidiary, Koolearn, through a series of contractual arrangements with Beijing Xuncheng, and its subsidiaries and registered shareholders.

Subsequent to its voluntary delisting from the National Equities Exchange and Quotations in China in February 2018, Beijing Xuncheng went through a series of restructuring transactions and became a variable interest entity controlled by Koolearn, our majority-owned subsidiary, which operates our online education business, through a series of contractual arrangements. Dexin Dongfang, a wholly-owned PRC subsidiary of Koolearn, has entered into contractual arrangements with Beijing Xuncheng, its subsidiaries and registered shareholders to enable us, through Koolearn, to:

- (i) have the power to direct the activities and most significantly affect the economic performance of Beijing Xuncheng and its subsidiary;
- (ii) receive substantially all of the economic benefits from Beijing Xuncheng and its subsidiary; and

HISTORY

- (iii) have an exclusive option to purchase all or part of the equity interest in Beijing Xuncheng, when and to the extent permitted by PRC law, or request any existing shareholder of Beijing Xuncheng to transfer all or part of the equity interest in Beijing Xuncheng to another PRC person or entity designated by us at any time in our discretion.

Terms of contractual arrangements with Beijing Xuncheng

Each of the specific agreements that comprise these contractual arrangements are summarized below:

1. Equity Pledge Agreement

Pursuant to the share pledge agreement dated as of May 10, 2018 (the “**Equity Pledge Agreement**”) entered into by and among Dexin Dongfang, Beijing Xuncheng and all of its shareholders, each shareholder of Beijing Xuncheng agreed to irrevocably and unconditionally pledge its equity interest in Beijing Xuncheng to Dexin Dongfang to secure the performance of obligations of Beijing Xuncheng, its shareholders, and relevant subsidiaries under the exclusive option agreement, the powers of attorney, the exclusive management consultancy and business cooperation agreement, and the letters of undertaking. Beijing Xuncheng’s shareholders agreed not to transfer or dispose of the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests without the prior written consent of Dexin Dongfang. The pledge takes effect upon registration with the relevant authorities and will remain in effect until the satisfaction of all contractual obligations of Beijing Xuncheng, its subsidiaries and its shareholders under the principal agreements or the termination of the principal agreements or 30 days after Dexin Dongfang provides a written termination notice to other parties, whichever is later.

2. Exclusive Option Agreement

The Exclusive Option Purchase Agreement dated as of May 10, 2018 (the “**Exclusive Call Option Agreement**”) was entered into by Dexin Dongfang, Beijing Xuncheng and all of its shareholders. Pursuant to this agreement, Beijing Xuncheng’s shareholders unconditionally and irrevocably agreed to grant Dexin Dongfang an exclusive option to purchase all or part of the equity interests in Beijing Xuncheng for the minimum amount of consideration permitted by PRC law. Where the purchase price is required by PRC law to be an amount other than nil consideration, Beijing Xuncheng’s shareholders undertake to return the amount of purchase price they shall have received to Dexin Dongfang or any of its designated third party. Dexin Dongfang has the sole discretion to decide whether to exercise the option in part, in full or at all. Without the prior written consent of Dexin Dongfang, none of the assets of Beijing Xuncheng may be sold, transferred or otherwise disposed of. In addition, without Dexin Dongfang’s prior written consent, none of Beijing Xuncheng’s shareholders may transfer or permit to create any encumbrance, guarantee or security over its equity interests in Beijing Xuncheng. Beijing Xuncheng’s shareholders also undertook that if they receive any profit distribution or dividend from Beijing Xuncheng, they will immediately pay or transfer such amount, subject to the relevant tax payment being made under the relevant laws and regulations, to Dexin Dongfang. This agreement will remain in effect until Dexin Dongfang or its designated third parties have acquired all the equity interests in Beijing Xuncheng. Dexin Dongfang may unilaterally terminate this agreement through a 30-day prior written notice.

HISTORY

3. Exclusive Management Consultancy and Cooperation Agreement

The Exclusive Management Consultancy and Cooperation Agreement dated as of May 10, 2018 (the “**Management Agreement**”) was entered into by and among Dexin Dongfang, Beijing Xuncheng and its subsidiaries, and all of its shareholders. Pursuant to the agreement, Dexin Dongfang has the exclusive right to provide, or designate any third party to provide Beijing Xuncheng and its subsidiaries with corporate management services, intellectual property licenses, technical and business support, and other additional services as the parties may agree from time to time. Without Dexin Dongfang’s prior written consent, neither Beijing Xuncheng nor any of its subsidiaries may accept the foregoing services from a third party. Dexin Dongfang owns all intellectual property rights arising out of the performance of this agreement. In exchange for the services, Beijing Xuncheng and its subsidiaries agree to pay their entire income to Dexin Dongfang as the service fee. In addition, without Dexin Dongfang’s prior written consent, Beijing Xuncheng and its subsidiaries shall not enter into any transactions that may affect its assets, obligations, rights or operations, other than those transactions entered into in the ordinary course of business. Dexin Dongfang has the right to appoint directors, general managers, financial controllers and other senior managers Beijing Xuncheng and its subsidiaries. Without Dexin Dongfang’s prior written consent, Beijing Xuncheng shall not change or remove any directors or make any distribution to its shareholders. This agreement will remain effective until terminated upon the agreement of the parties.

4. Supplemental Agreement

A supplemental agreement dated October 10, 2019 was entered into by and among Dexin Dongfang, Zhuhai Chongsheng Heli Network Technology Co., Ltd. (珠海崇勝合力網絡科技有限公司) (“**Zhuhai Chongsheng**”), Beijing Xuncheng and its subsidiaries, and all of its shareholders. Pursuant to the agreement, Zhuhai Chongsheng joined as a party to the Equity Pledge Agreement, the Exclusive Call Option Agreement, the Management Agreement, the Powers of Attorney and Letters of Undertaking and assumed the same rights and share the same obligations as Dexin Dongfang under those agreements.

Summary of ancillary documents that support the contractual arrangements with Beijing Xuncheng

1. Powers of Attorney

On May 10, 2018, each of Beijing Xuncheng’s shareholders executed a power of attorney whereby such shareholder irrevocably appoints Dexin Dongfang or any person designated by Dexin Dongfang as its attorney-in-fact to exercise on the shareholder’s behalf any and all rights the shareholder has in respect of its equity interests in Beijing Xuncheng. The power of attorney will remain effective as long as the shareholder holds any equity interest in Beijing Xuncheng. On May 10, 2018, Beijing Xuncheng also executed a power of attorney whereby it irrevocably appoints Dexin Dongfang or any person designated by Dexin Dongfang as its attorney-in-fact to exercise on its behalf any and all rights it has in respect of its equity interest in its current or future majority-owned subsidiaries. The power of attorney will remain effective as long as Beijing Xuncheng continues to hold any equity interest in its subsidiaries.

HISTORY

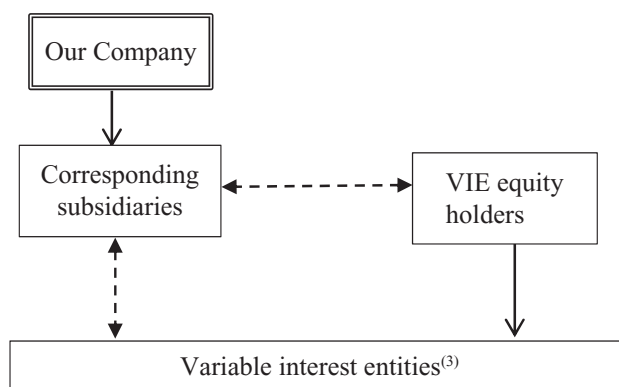
2. Letters of Undertaking

As of the Latest Practicable Date, Century Friendship directly held the entire equity interest in New Oriental China, the largest shareholder of Beijing Xuncheng. To ensure stability and continued validity and enforceability of the foregoing agreements, Century Friendship and its shareholders, our founder Mr. Michael Minhong Yu and Ms. Bamei Li, have executed a letter of undertaking dated May 10, 2018 whereby they undertook not to enter into any arrangement, including pledge, sale, disposal or creation of other third party rights, in relation to Century Friendship's equity interests in New Oriental China which may adversely affect the implementation of the foregoing agreements entered into by New Oriental China unless they have obtained consent from Koolearn or Dexin Dongfang, and the counterparties or beneficiaries of such arrangement have executed written undertaking(s) to the effect that they will not affect the performance of the foregoing agreements entered into by New Oriental China. The general partner of each limited partnership that holds equity interest in Beijing Xuncheng executed a similar letter of undertaking as of May 10, 2018 to the same effect. In addition, Century Friendship and its shareholders undertook not to participate in, invest in, own or manage any businesses competing with that of Beijing Xuncheng and its subsidiaries as long as they continue to hold equity interest in Beijing Xuncheng.

3. Acceptance Letter

A letter of acceptance dated October 10, 2019 has been executed by Beijing Dongfang Youbo Network Technology Co., Ltd. ("**Dongfang Youbo**"). Pursuant to the letter, Dongfang Youbo assumed the same rights and obligations as Beijing Xuncheng's subsidiary under the Management Agreement.

For the purpose of the arrangements, we refer to New Oriental China and Beijing Xuncheng as our variable interest entities, and to New Oriental China and its schools and subsidiaries, as well as Beijing Xuncheng and its subsidiaries, as our consolidated affiliated entities. The diagram below illustrates the general structure of the economic flow and control under the VIE structure created by the contractual arrangements:



Notes:

- (1) "→" denotes the direction of legal and beneficial ownership.
- (2) "↔" denotes the contractual arrangements among the VIE entities, VIE equity holders, and our corresponding subsidiaries.
- (3) New Oriental China and Beijing Xuncheng.

HISTORY

In the fiscal years ended May 31, 2018, 2019 and 2020, our variable interest entities contributed in aggregate 98.8%, 98.7% and 96.5%, respectively, of our total net revenue.

See “Related Party Transactions” for more information on the agreements between us and our related parties, including the variable interest entities.

Confirmations and risks relating to the variable interest entity structure

Tian Yuan Law Firm, our PRC Legal Adviser, is of the opinion that, as of the date of this document:

- (a) the current ownership structures of our variable interest entities and the corresponding subsidiaries in China do not violate any applicable PRC laws and regulations currently in effect;
- (b) each of the contractual arrangements entered into by the variable interest entities, the corresponding subsidiaries and their respective VIE equity holders governed by PRC laws and regulations is valid, legal and binding, and does not violate any applicable PRC laws and regulations or their respective articles of association currently in effect; and
- (c) each of the contractual arrangements entered into by the variable interest entities, the corresponding subsidiaries and the respective VIE equity holders governed by PRC laws and regulations are not deemed as “concealment of illegal intentions with a lawful form” and void under the PRC Contract Law.

Based on the above, our directors believe that the agreements underlying the contractual arrangements as described above that confer significant control and economic benefits from the variable interest entities to us are enforceable under the relevant laws. Nevertheless, any violations by the variable interest entities of our agreements with them could disrupt our operations or adversely affect our services. See “Risk Factors — Risks Related to Our Corporate Structure.”

Additionally, we have been advised by our PRC Legal Adviser that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws and regulations. Accordingly, there can be no assurance that the PRC regulatory authorities will not in the future take a view that is contrary to the above opinion of our PRC Legal Adviser. For example, if the relevant government authorities take a different view from ours on the Preschool Opinions and determine that our for-profit and/or non-profit kindergartens shall be excluded from our company, we may be requested to unwind the contractual arrangements for some or all of our kindergartens. We have been further advised by our PRC Legal Adviser that if the PRC government finds that the agreements that establish the structure for operating our education business in China do not comply with PRC regulatory restrictions on foreign investment in the education business, we could be subject to severe penalties, including being prohibited from continuing our operations or unwinding the contractual arrangements. The imposition of any of these penalties could result in a material adverse effect on our ability to conduct our business. See “Risk Factors — Risks Related to Our Corporate Structure — If the PRC government finds that the agreements that establish the structure for operating some of our China business do not comply with applicable

HISTORY

PRC laws and regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations” and “Risk Factors — Risks Related to Doing Business in China — Uncertainties with respect to the PRC legal system could adversely affect us.”

We have considered the costs and difficulties of acquiring insurance on commercially reasonable terms, and consider it impractical for us to have insurance to cover these risks. Accordingly, we have not purchased insurance to cover the risks relating to the contract arrangements.

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any PRC regulators in operating our business through variable interest entities under the contractual arrangements.

INDUSTRY

This section of this prospectus contains information relating to and statistics on the industry in which we operate. The information and statistics contained in this section have been derived partly from publicly available government and official sources as well as from the “F&S Report” produced by Frost & Sullivan, an independent third party. We believe that the sources of such information and statistics are appropriate sources and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information and statistics have not been independently verified by us, the Joint Sponsors, the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, employees, advisors, agents or representatives or any other party involved in the Global Offering (other than Frost & Sullivan) and no representation is given as to its accuracy (other than Frost & Sullivan).

SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is engaged in the provision of market research consultancy services, to conduct research and analysis of, and to produce a report on, the education service market in China.

During the preparation of the F&S Report, Frost & Sullivan performed both primary research, which involved discussing the status of the industry with leading industry participants and industry experts, and secondary research, which involved reviewing annual reports of companies, independent research reports and Frost & Sullivan’s proprietary database. The F&S Report was compiled based on the following assumptions: (i) China’s economy is likely to maintain steady growth in the next decade; (ii) China’s social, economic and political environment is likely to remain stable in the forecast period from 2020 to 2024; and (iii) market drivers, such as Chinese families’ attention on children’s education and relaxation of one-child policy are likely to drive the growth of the education market in China.

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies, and provides growth consulting and corporate training. It has over 40 offices worldwide with over 2,000 industry consultants, market research analysts and economists. We are contracted to pay a fee of RMB500,000 to Frost & Sullivan in connection with the preparation of the F&S Report. We have extracted certain information from the F&S Report in this section, as well as in the sections headed “Summary,” “Risk Factors,” “Business,” “Financial Information” and elsewhere in this prospectus to provide our potential investors with a more comprehensive presentation of the industries in which we operate.

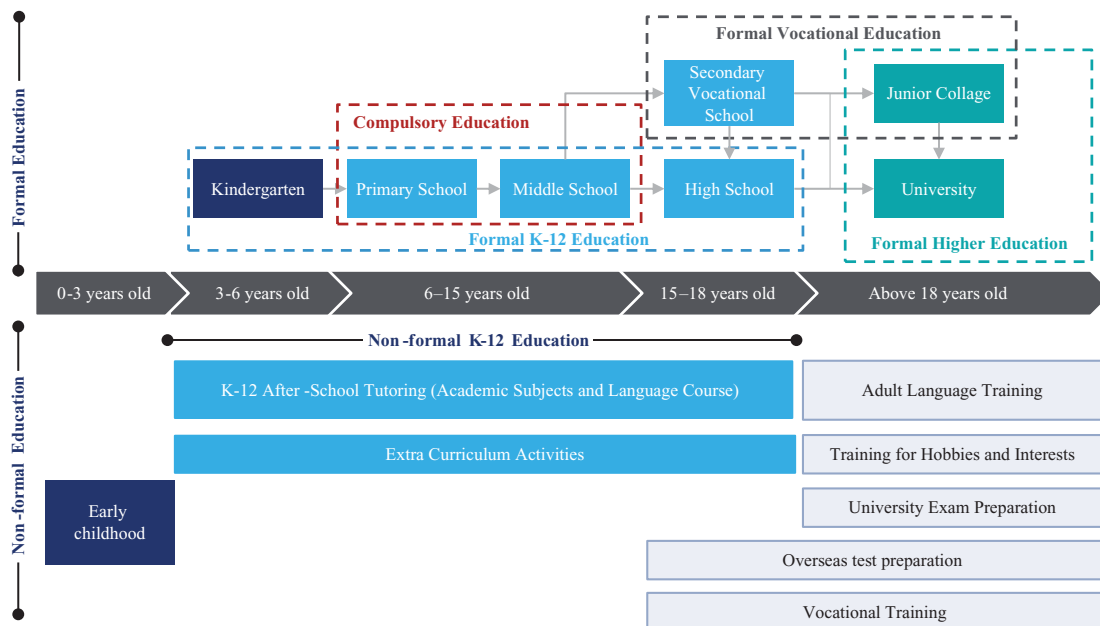
OVERVIEW OF CHINA’S EDUCATION SYSTEM

China’s education system can be categorized into formal education and non-formal education. Formal education provides students with a certificate or degree accredited by the PRC Ministry of Education. It is comprised of pre-school education, compulsory education, which is primary and middle school education, high school education, and higher education that covers college and university education. China’s non-formal education, as a supplement to formal education, includes among others, after-school tutoring, extra curriculum

INDUSTRY

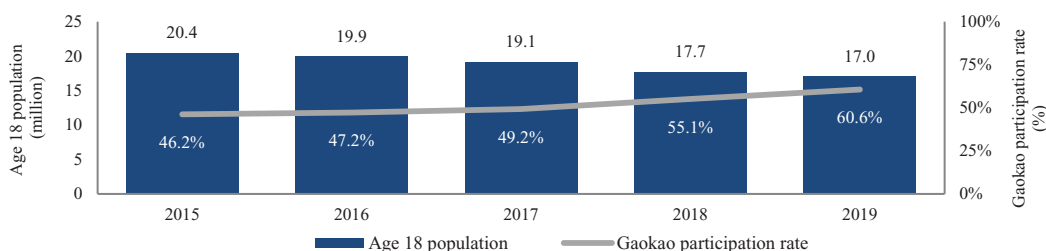
activities, test preparation, foreign language training, early-childhood education, trainings for hobbies, and vocational training.

The following diagram illustrates the composition of China's education system:

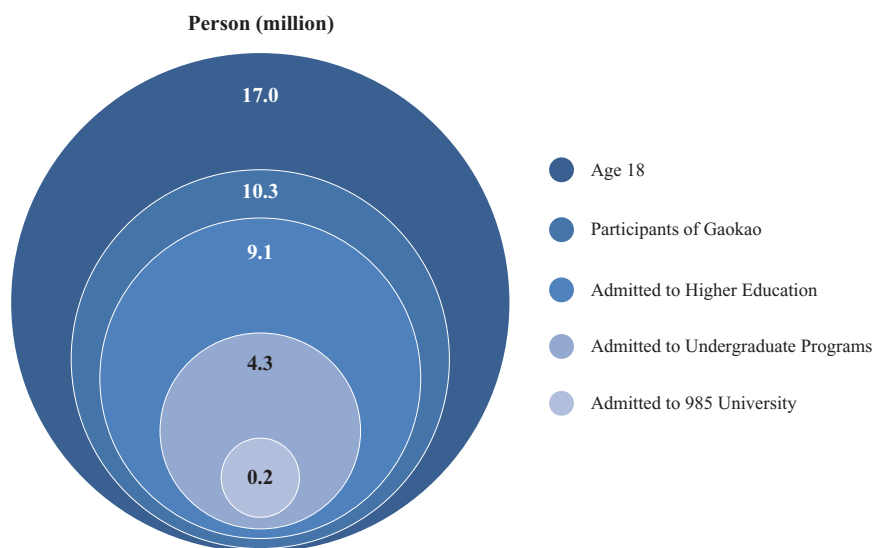


The huge demand for quality education and scarce resources of quality education in China have resulted in intense competition among students at an early age. University entrance examinations, known as “Gaokao”, and high school entrance examinations, known as “Zhongkao”, are the key exams where students compete for admission into better universities and high schools. Gaokao is critical to high school students as the results of Gaokao determine the university that students attend. The anxiety among Chinese parents and intensified competition between students have fueled the lasting and booming demand for K-12 after-school tutoring services.

Age 18 population and Gaokao participation rate in China, 2015-2019



The following diagram illustrates the categories of the Gaokao population in 2019:



Note: Higher Education refers to junior college and university. 985 Universities refer to top 39 universities in China

Key Drivers of China's Private Education Industry

- Booming demand for high quality education.** According to Frost & Sullivan, the total number of K-12 students in China reached 225.1 million in 2019 and is expected to grow to 232.3 million by 2024. With the continuous growth in population, increasing level of urbanization and higher per capita disposable income in China, demand for better education has continued to grow as it becomes more accessible and affordable for households in China. Disposable income per capita grew from RMB31,200 in 2015 to RMB42,400 in 2019, and is expected to grow at a 6.8% CAGR between 2019 and 2024 to RMB58,900. Urbanization rate in China grew from 56.1% in 2015 to 60.6% in 2019, and is expected to reach 64.8% in 2024. The growth rate of per capita household expenditure on education from RMB979 in 2019 to RMB1,424 in 2024, at a 7.8% CAGR, outpaces the growth rate of China's disposable income per capita during the same period.
- Growing desire for comprehensive educational services.** With the emerging education and employment opportunities, China's young generation is seeking for a variety of education services that meet their needs beyond the school curriculum. For example, foreign language capabilities, primarily English, and professional qualifications and certifications, are important for pursuing better career development in China and abroad, which have resulted in increase in demand for courses in these areas. In addition, there has been continued growth in demand for overseas studies as it has become more affordable for students in China and students usually have brighter career prospect after graduation from overseas higher education.
- Advancement and wide application of innovative technology.** In recent years, an increasing number of education service providers in China started to adopt innovative technologies, such as mobile internet,

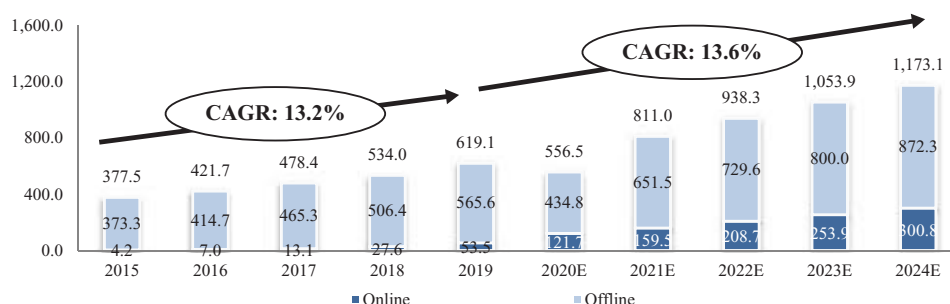
INDUSTRY

5G and AI, to improve teaching efficiency and learning experience for students. The utilization of technologies enables education service providers to offer quality education remotely or via a combination of online and offline education format to students in less developed regions where talented teachers remain relatively scarce. The integration of technology also enables a seamless and continuous delivery of education services under special circumstances, such as COVID-19, when traditional offline education is disrupted.

K-12 After-School Tutoring Service Market in China

The total market size of K-12 after-school tutoring market in China, including kids and junior English Language Training (“ELT”), grew from RMB377.5 billion in 2015 to RMB619.1 billion in 2019, representing a CAGR of 13.2%, and is expected to further increase to RMB1,173.1 billion in 2024, representing a CAGR of 13.6%. The growth is primarily driven by the increase in penetration rate of K-12 after-school tutoring across various subjects into lower-tier cities and rural areas, the increasing demand for higher education quality, the increase in level of difficulty for school curriculum, as well as the recurring and long term demand for quality education services in China. Although offline K-12 after-school tutoring in China was negatively impacted by COVID-19 due to lockdown measures imposed by the government, it is expected to rebound quickly in 2021 as the pandemic has gradually been brought under control in China.

Total market size of K-12 after school tutoring in China (including kids and junior ELT), by revenue (RMB billion)



The total number of student enrollments in K-12 after-school tutoring has increased from 202.6 million in 2015 to 325.3 million in 2019 and is expected to further increase to 659.5 million in 2024, representing a CAGR of 15.2% from 2019. The penetration rate of overall K-12 after-school tutoring market has experienced and is expected to continue to witness rapid growth. The penetration of online K-12 after-school tutoring by student population increased from 1.8% in 2015 to 14.5% in 2019 and is expected to further increase to 45.8% by 2024. Penetration rate of offline K-12 after-school tutoring by student population increased from 26.3% in 2015 to 27.4% in 2019 and is expected to continue to increase to 31.3% by 2024. In 2019, online student enrollments as a percentage of total student enrollments in K-12 after-school tutoring in China (including kids & junior ELT) was 20.5% and it is expected to increase to 47.6% by 2024.

INDUSTRY

Total number of student enrollments in K-12 after school tutoring in China (including kids & junior ELT) (million)

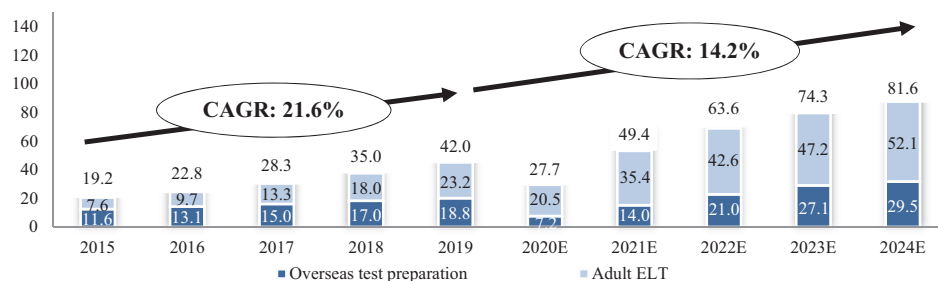
	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Total	202.6	218.1	239.1	271.5	325.3	357.4	481.9	551.8	605.9	659.5
<i>Offline</i>	197.7	210.2	224.6	239.5	258.7	197.5	285.6	307.8	326.2	345.6
<i>Online</i>	4.9	7.9	14.5	32.0	66.6	159.9	196.3	244.0	279.7	313.9

Test Preparation and Language Training Market in China

The total market size for overseas test preparation and adult ELT market in China has increased from RMB19.2 billion in 2015 to RMB42.0 billion in 2019 and is expected to further increase to RMB81.6 billion in 2024, representing a CAGR of 14.2% from 2019.

The number of new overseas students from China was approximately 523.7 thousand and 718.4 thousand in 2015 and 2019 respectively, according to Frost & Sullivan, and it is expected to grow to 998.0 thousand by 2024. China has witnessed growing demand for courses in overseas qualification test preparation and foreign language learning (including non-English languages). The outbreak of COVID-19 in 2020 has temporarily slowed down the burgeoning growth of overseas studies demand, the long-term prospect of which, nonetheless, stays bright due to increasing affordability and growing desire for better career prospect.

Total market size of overseas test preparation and adult ELT market in China, by revenue (RMB billion)



Total number of students enrolled in overseas test preparation and adult ELT in China (in thousands)

	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Total	2,367	2,832	3,620	4,584	4,908	4,872	5,376	5,902	6,418	6,856
<i>Adult ELT</i>	1,989	2,414	3,149	4,069	4,354	4,600	4,985	5,334	5,707	6,107
<i>Overseas test preparation</i>	378	418	470	515	554	272	391	568	710	749

Competitive Landscape of K-12 After-School Tutoring Service, Test Preparation and Language Training Markets in China

Industry landscape

There are only a few established education service providers who possess good reputation, scalability, nationwide presence and wide spectrum of product offerings across China. We are currently the largest private educational service provider in China in terms of total net revenues and number of schools and learning centers, in the fiscal year ended May 31, 2020. We offer the most comprehensive courses in China in terms of the number of types of educational service offerings and the number of examination boards covered (i.e., SAT, TOEFL and etc.) as of the Latest Practicable Date.

The K-12 after-school tutoring service market in China is highly fragmented and is still expanding at a decent pace which presents massive opportunities for future growth. According to Frost & Sullivan, in 2019, the top five players accounted for 8.5% of the total K-12 after-school tutoring service (including kids and junior ELT) market in China in terms of revenues.

Entry barriers

- Reputable brand which maintains high customer stickiness and capability to attract new customers and retain existing customers. Education industry is heavily reliant on word-of-mouth referral. Well-established reputation with years of successful operation is crucial for maintaining high customer stickiness and hence sustainable organic growth at low customer acquisition cost. New entrants will need to spend enormous time and capital to build such reputation and attract new customers.
- Nationwide coverage and high level of scalability. An extensive nationwide network consisting of hundreds of learning centers and schools requires significant time and capital to accomplish. Unified service quality delivered across the nation derived from standardized training curriculum is also essential to support successful expansion of network. Without a centralized operating system and standardized training process to manage the extensive network, new entrants may find it difficult to achieve high level of scalability.
- High quality education services with a breadth of product offering. Well-established players offer high quality education services as a result of stringent recruitment standards, standard training programs and systematic teaching process that have been continuously optimized over an extended period of time. These further reinforce such established players' strong branding and reputation. Well-established players also offer a breadth of product offerings, owing to their rich experience in the education industry, whereas new entrants usually only focus on one business segment. In addition, well-established players are able to provide one-stop education solutions to students and seize a plenty of cross-selling opportunities, which are hardly seen for new entrants.
- Technology and innovation capabilities. New entrants, without adequate operating experience and industry know-how, often lack the capabilities to develop proprietary curriculum. In contrast, well-

INDUSTRY

established players have developed customized learning contents catered to different customer needs. Not only do they have proprietary teaching content to strengthen brand recognition, well-established players also have significantly more competitive R&D capabilities to adopt new technologies that can provide customers with an innovative and efficient learning experience.

BUSINESS

OUR MISSION

To provide students with empowerment, inspiration and horizon for a lifetime.

OUR VISION

To continue to be a highly respectable institution for its values and excellence.

THE NEW ORIENTAL WAY

We are committed to educating and inspiring students of all ages to achieve their potential, build self-confidence and develop a global vision with understanding and appreciation of both traditional Chinese culture and modern western cultures, as well as boosting students' passion for learning, through the "New Oriental way" of innovative teaching and inspirational instruction. Our commitment to innovative and inspirational teaching is cultivated by our company culture that encourages creativity and our continued passion for education.

COMPANY OVERVIEW

In 1993, our founder and executive Chairman, Michael Minhong Yu, opened our first school in Beijing to offer TOEFL test preparation courses to college students. After nearly 30 years of operation, we have become the most comprehensive private educational services provider in China in terms of service and product offerings, according to Frost & Sullivan. We are the largest private educational service provider in China in terms of total net revenue and network of schools and learning centers for the fiscal year ended May 31, 2020, according to the same source. As of May 31, 2020, we had accumulated over 55.4 million student enrollments since inception. We provide educational services primarily under our "New Oriental" brand, where we are the only Chinese education company awarded the "Top 50 Most Valuable Commercial Services Brands" in the world in 2020 published by Brand Finance, according to Frost & Sullivan.

Our education ecosystem

We have developed an integrated online to offline education ecosystem around our students, parents, and teachers, where we offer one-stop educational services with comprehensive services and products covering all core school subjects in all class formats. With our operating history of nearly 30 years, we have delivered educational services to students across two generations and have accumulated a large alumni network.

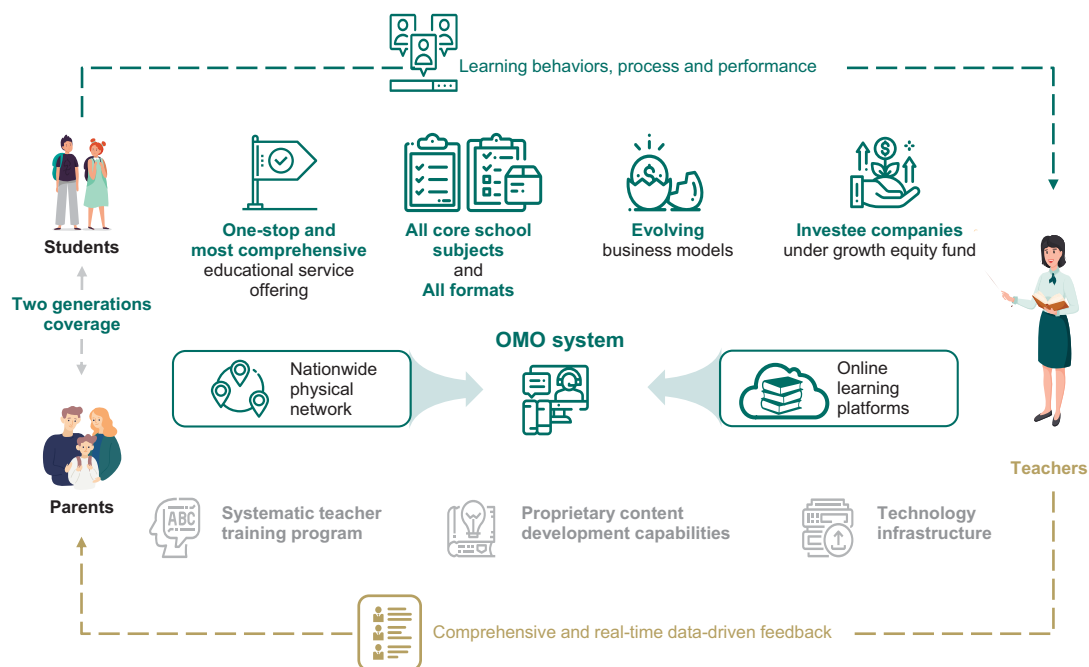
Our educational services are delivered via our nationwide physical network of 104 schools, 1,361 learning centers and 12 bookstores primarily under our "New Oriental" brand across 91 cities in China as of May 31, 2020, as well as our online learning platforms under our "Koolearn," "DFUB," and "Donut" brands.

We continuously evolve and optimize our business models to capture market opportunities, enhance our students' learning experience, and optimize our operational efficiency. Our in-house-developed online-merge-offline (OMO) standardized digital classroom teaching system combines our offline education resources with

BUSINESS

advanced technologies and enables us to pioneer different teaching models, while Koolearn, our subsidiary, offers pure online classes. We also established a growth equity fund to capture investment opportunities in various education subsectors to create synergy with our existing businesses.

At the core of our education ecosystem are our high quality teachers and systematic teacher selection, training and retention processes, our innovative and inspirational instruction approach, our original education content, and our proprietary technologies which are applied in multiple areas of our business operations, including student acquisition, learning content customization, real-time feedback to students and parents, and content and courseware development.



Our value propositions

To our students:

- Inspirational teaching approach to develop students' positive attitude and passion in learning
- Broad selection of courses spanning a student's education lifetime
- High quality and distinctive educational content
- Access to high quality teachers
- Personalized and customized learning experience based on learning progress and feedback

BUSINESS

To parents:

- Comprehensive and real-time data-driven feedback on students
- Insightful tracking and monitoring of students' learning progress anywhere, anytime, which enable parents to tutor their children more efficiently
- Customized education solutions backed by our comprehensive services and products to suit the diversified education needs of students
- Comprehensive and systematic family education courses to help parents navigate through their children's growth and achieve good parenting and blissful families

To our teachers:

- Diversified and clear career path
- Systematic teacher training program with established framework of quality assurance development and continuous targeted professional development systems
- Effective technology-enabled teaching experience
- Exposure to a broad range of educational scenarios to enhance teaching experience
- Performance-based evaluation and incentive systems

Our educational service and product offerings

We are committed to offering comprehensive and high quality educational services and products to meet the evolving needs of students in each stage of their life (from kindergarten to adult), including K-12 after-school tutoring, overseas and domestic test preparation, language training for adults, pre-school, primary and secondary schools, education materials and distribution, online education, and other services.

Our scale

Our education ecosystem as a whole has achieved significant scale. Our total student enrollments in K-12 AST, test preparation, and other courses increased from approximately 6.3 million for the fiscal year ended May 31, 2018 to approximately 10.6 million for the fiscal year ended May 31, 2020, representing a CAGR of 29.7%. Our total net revenues increased from US\$2,447.4 million for the fiscal year ended May 31, 2018 to US\$3,578.7 million for the fiscal year ended May 31, 2020, representing a CAGR of 20.9%. Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders increased from US\$296.1 million in the fiscal year ended May 31, 2018 to US\$413.3 million in the fiscal year ended May 31, 2020, representing a CAGR of 18.1%.

STRENGTHS

We believe that our key competitive strengths include our leadership position, strong brand recognition, comprehensive service and product offerings with life-long one-stop solution, innovative online and offline integration powered by AI technology, systematic approach to hiring and training high quality teachers, superior content creation capabilities, as well as our visionary and experienced management team.

The leading provider of private educational services in China

We are the leader amongst private educational service providers in China with a long established track record of being the pioneer in new educational service subsectors and teaching systems. We are the largest private educational service provider in China in terms of total net revenue and network of schools and learning centers for the fiscal year ended May 31, 2020, according to Frost & Sullivan. We are also one of the leaders in K-12 after-school tutoring, overseas test preparation service, and overseas studies consulting by revenue in 2019, according to the same source.

As of May 31, 2020, we had accumulated over 55.4 million student enrollments since inception. Our student enrollment has continued to grow significantly in the recent years, by 32.4% from over 6.3 million in the fiscal year ended May 31, 2018 to approximately 8.4 million in the fiscal year ended May 31, 2019 and further by 26.3% to approximately 10.6 million in the fiscal year ended May 31, 2020.

Leveraging nearly 30 years of operational know-how, we continuously innovate to adapt to the evolving needs of our students and expand in a highly-scalable manner. We enhance and enrich our educational services and launch new programs, services and products to enter into new educational service sectors. According to Frost & Sullivan, we were the first or an early mover in providing K-12 after-school tutoring, overseas test preparation and online education services, as well as making equity investments in various education subsectors with synergetic potentials. We also strive to enhance our students' learning experience by pioneering new business models and adopting new technologies. We are the first or an early mover in adopting the OMO standardized digital classroom teaching system and dual-teacher model, and in providing location-based live and interactive tutoring service, according to Frost & Sullivan.

As a market leader and pioneer in private educational services in China, we believe we are well positioned to reinforce our market leadership, leverage economies of scale, and capture and scale up in more market opportunities driven by the growing demand for high quality private educational services in China.

Strong brand recognition

We have successfully established “New Oriental” as a trusted brand with well-established brand recognition in the private education industry and have been delivering high quality and differentiated products and services under the brand to students over decades and across generations enabling recurring revenues. We have successfully achieved two generation coverage through nearly 30 years of operation. As one of the most popular and recognized education brands in China, we have received numerous awards and recognitions for our

BUSINESS

brand, including being recognized as the “Top 50 Most Valuable Commercial Services Brands” in the world for three consecutive years from 2018 to 2020 according to Brand Finance, the “Top 100 Most Valuable Chinese Brands” for seven consecutive years from 2014 to 2020 according to BrandZ, the “Top 70 Brands for the 70th Anniversary of China” according to China Central Television, or CCTV in 2019, and the “1st C-BPI Brand in China Training Service Industry” for eight consecutive years from 2012 to 2019 according to Chnbrand.

As a result of our strong brand, we believe we are able to maintain pricing power for our high quality courses, have low customer acquisition cost due to strong word-of-mouth referrals, high retention rates, and benefit from cross-selling opportunities among our various educational services and products. We believe that our strong brand also helped us penetrate quickly into new markets and increase our market share in existing markets.

Most comprehensive service and product offerings with life-long one-stop educational services solution

We provide lifelong, one-stop educational services with a diversified portfolio of educational services and products to meet the needs of students in each stage of life. We ranked number one in China in terms of (i) number of types of educational services offering, and (ii) number of examination boards covered by our exam preparation courses (i.e., SAT, TOEFL and etc.) as of August 2020, according to Frost & Sullivan.

Our comprehensive educational services consist of a well-balanced and diversified set of programs, products and services, including primarily (i) all-subject K-12 after-school tutoring courses to supplement students’ regular school curricula in China, (ii) language training and test preparation courses for students taking language and entrance exams used by educational institutions in the PRC and overseas, (iii) comprehensive online education courses focused on after-school tutoring and test preparation courses through Koolearn, and (iv) in-house content development and distribution through our extensive distribution channels.

Our classes are delivered in all formats, including large, small condensed, 1-on-1 offline classes and online classes. Our strategies to offer affordable larger classes, higher priced individualized small or 1-on-1 classes, as well as flexible online class formats through Koolearn, allow us to cater to the diversified education needs of students with customized education solutions.

We believe our comprehensive and diversified educational services and products allow us to differentiate ourselves from our competitors by offering the highest flexibility and broadest selections of course options to students and parents, to address their different and evolving needs. In addition, we aim to continuously serve students on a multi-year, multi-decade and multi-generational basis and achieve cross-selling and up-selling opportunities to better retain students and maximize students’ lifetime value.

Innovative online and offline integration powered by AI technology

We have integrated our offline network and operations with online technology for all of our educational services and operations. A core part of this integration is our OMO system, which we introduced in 2014 as a first mover amongst private educational service providers in China, according to Frost & Sullivan. The system is

an online education system that complements and supports our students' offline learning activities and enhances interactions among teachers, students and parents, incorporating a comprehensive set of technologies, methodologies, and initiatives centering around the digital classroom teaching system.

With the OMO system, all of our offline teaching expertise, materials, and resources are digitalized, centralized and analyzed, and can be applied across our educational service offerings. In doing so, the OMO system helps increase the efficiency of our internal operations to support our further expansion.

Data on students' learning behaviors, process and performance from all terminals of the teaching process, including the interactive Q&A machines and a matrix of apps, are collected and analyzed to generate customized teaching content and services for each student. After-class exercises are highly customized to each student based on his/her past performance. Our OMO system provides parents with real-time feedback and closely connects teachers, students and parents. The data analysis also helps teachers prepare their lessons, both those delivered online and offline, helping to standardize and structure lesson content. Based on our rich database, teaching materials can be generated automatically and tailored to the needs of the specific classes. Teachers are thus able to spend more time on content development and individual student interaction.

Our OMO system benefits from the extensive data on teaching techniques, materials, and resources accumulated over our long operating history and as a result of our large scale. As of May 31, 2020, we had accumulated over 55.4 million student enrollments over our operating history of nearly 30 years. Moreover, the system accumulates additional data from all participants in our education ecosystem through a wide range of interfaces and terminals, and the data analytics intelligence is constantly advancing and dynamically evolving.

The continued accumulation of data enables us to develop new teaching services, which in turn feeds new data back into the system. This virtuous cycle is difficult to replicate without a long operating history, a massive scale of operations and student enrollments, a comprehensive and technology-driven OMO system, big data analytics and constant and significant investments in R&D, among others, creating a significant barrier to entry, as well as powerful network effects for every incremental student enrollment.

We believe this integration of online and offline education through our OMO system enables us to adapt quickly to the constantly evolving private education industry trends and competitive landscape and maintain our leadership position, such as by realizing and addressing unmet customer demand with new innovative offerings. We are thus able to expand rapidly and further penetrate into new cities while maintaining our high teaching quality, achieve economies of scale by increasing student to teacher ratio, improve utilization of classroom capacity, and address excess demand in lower-tier cities.

Systematic approach to hiring and training high quality teachers

We are committed to delivering the best learning experience to students by placing a heavy emphasis on the recruitment, training, and retention of high quality teachers.

We have adopted stringent teacher recruitment standards and a selective hiring process. As of May 31, 2020, we employed approximately 41,400 teachers many of whom are from top universities in China or have studied overseas.

We have developed systematic training and career development programs in order to groom our teachers into high quality educators, mentors and brand ambassadors. Such programs are designed to nurture all of our teachers as a whole, allowing us to be all inclusive and less reliant on individual teachers. Our training focuses on standardizing and enhancing teaching methods, teaching new skills, and fostering a school culture based on innovation, inspiration and community. The systematic training programs also ensure that teachers can adapt to our innovative and inspirational instruction approach and adhere to the New Oriental culture throughout their teaching.

We offer training through our online teacher training platform and onsite training courses both in China and overseas. We also leverage data from our OMO system to provide comprehensive training to teachers in order to achieve consistency in teaching quality across our teacher cohorts. Over nearly 30 years of operation, we have fine-tuned our training programs to strike a balance between standardization to promote efficiency, and creativity to foster innovation and inspiration. We have also instituted a dual-track career development framework, to ensure a transparent and visible career progression path for our teachers. Furthermore, we help teachers build their personal brand and expand their personal influence through various measures, such as providing enhanced support on their teaching platforms.

We believe that our competitive and incentivizing remuneration package, career advancement opportunities, and systematic teacher training programs allow us to recruit, train and retain top quality teachers in the industry.

Superior content creation capabilities

We offer superior educational content to our students through our various high quality content developed in-house and our application of technology.

We have a dedicated and centralized content development team for our educational content. We have adopted big data analytics and AI technologies to our content development process, which enable us to automatically generate teaching materials tailored to the needs of specific classes, incorporate self-adaptive features to our content and make further refinements to our content based on student feedback.

We are also one of the first education companies in China to help teachers publish their teaching content, according to Frost & Sullivan. By incorporating content from teachers into our education programs, we ensure our content is derived from authors with first-hand experience in the field.

We have worked with Cambridge University Press, Oxford University Press, Educational Testing Service, Cengage Learning, the Northern Consortium (NCUK) and other education content providers to develop and distribute localized versions of selected educational materials in China. We were the first mover amongst private educational service providers in China to cooperate with international education content providers to develop and publish localized and customized teaching materials and content in China in 2005, according to Frost & Sullivan. In the fiscal year ended May 31, 2020, we developed and edited approximately 260 titles and distributed approximately 17.1 million books authored or licensed by us in China.

BUSINESS

We also provide educational content packages to schools and institutional customers such as universities, public libraries, telecom operators and online video streaming service providers, further validating that our content has gained market acceptance among the institutional customers and providers.

Visionary and experienced management team

Our management team has an aggregate of about 70 years of experience in the education industry and evolves with each new initiatives to ensure that we continue to deliver the best products and services to our customers.

Our founder and executive chairman, Mr. Michael Minhong Yu, is a renowned expert in English language teaching with over 35 years of experience in the education industry, and is a leader in the education community in China. He serves as the Vice Chairman of the Education Committee of the Central Committee of the China Democratic League. He has also received numerous awards including Influential Education Figure of the Year by Huanqiu.com in 2019, Outstanding Entrepreneurs from 40 Years of Reform and Opening Up by Central United Front Work Department and All-China Federation of Industry and Commerce in 2018, and 2017-2018 Global Chinese Education Leader by Overseas Chinese Charity Foundation of China and Phoenix Education in 2018. Our director and CEO, Mr. Chenggang Zhou, has served in multiple positions at our Company for over 20 years, which gives him a thorough understanding of all key aspects of our business. He has over 33 years of experience in the education and media sector. Our chief financial officer, Mr. Zhihui Yang, has served in multiple positions at our Company for over 14 years. He has over 23 years of experience in the education, accounting and finance sector.

Our other management team members also have extensive experience in and deep knowledge of China's private education industry. Our management team shares a passion for education and is committed to providing top quality educational services, which we believe will continue to drive our business growth, promote our brand and achieve our goals.

OUR STRATEGIES

Further solidify our market leadership

We will further solidify our market leadership. We plan to penetrate existing cities and enter new markets while maintaining our high teaching quality by leveraging our first mover advantages in a variety of new educational services, our trusted brand with well-established brand recognition, and our operational expertise from our nearly 30 years of operating history and our comprehensive private educational services. We have maintained rapid expansion of our nationwide physical network of schools, learning centers and classroom capacity over the past few years, and we plan to continuously expand in the future. We plan to increase our capacities in cities where we currently operate, and to a lesser extent, expand into new cities with unserved or underserved student demand for our education services. We will further develop our online and offline integration and develop features, functions and applications of our OMO system and pure-play online platforms to adapt quickly to the constantly evolving trends in the private education industry and competitive landscape.

Continue to expand content and service offerings with improving quality and enhance students' learning experience

We will continue to enrich our comprehensive course and product offerings in our education ecosystem, with a focus on expanding our subjects for K-12 after-school tutoring courses, by developing more high-quality and individualized programs to address students' evolving demands. We will provide differentiated service offerings for students in each stage of their life and in different tier cities. In particular, we intend to attract students in the earlier stages of their lifelong learning journeys and cross-sell our course offerings to maximize students' lifetime value.

We intend to enhance students' learning experience by developing more innovative and interactive features and functions and upgrading our in-house content and program creation and development capabilities. In doing so, we plan to enhance students engagement and increase student retention rate. We also plan to improve the personalized learning experience of our students by leveraging our technologies and data on students' learning behaviors, process and performance, for example by enhancing our data analytics capabilities and the use of AI in analyzing students' learning progress to provide learning contents that cater to students' capabilities and learning progress.

Continue to recruit, develop and retain teaching talents

To deliver the best educational experience to students, we will continue to place a strong emphasis on recruiting, training, and retaining teaching talents. We plan to leverage highly selective lateral hires and partnership with renowned universities to hire new high quality teachers and retain them with competitive rewards, diversified and clear career advancement opportunities, systematic teaching method and continuous training.

Powered by our OMO system and our systematic training programs such as new teacher training, on-the-job training, and rigorous evaluation, we will continue to ensure top teaching quality while reducing our reliance on individual teachers. We plan to further strengthen our smart Quality Assurance Development system and training materials to elevate all teachers' teaching quality, and enhance the professional development framework to better support the career development of our teachers.

Further strengthen technology capabilities and continuously increase operational efficiency

We will continue to strengthen our AI and big data capabilities to develop customized programs leveraging students' behavioral data and to further optimize our operations. We will continue to invest in R&D, including recruiting top-notch technology talents. We will upgrade existing proprietary technologies, such as audio and video streaming, in-class interactive functions, automatic exercise question grading tools, and customized pre-and post-class exercise recommendation, and develop new ones to amplify students' learning experience.

We will continue to improve operational efficiency with a systemized and centralized approach. We plan to refine our centralized operation platform that supports all service offerings, with a focus on the system advancing K-12 after-school tutoring business. Leveraging technology, we will further systemize our teaching method and curriculum development to achieve economies of scale as we expand and strengthen our education ecosystem.

Selectively pursue strategic investments and partnerships

We plan to selectively pursue strategic investments in businesses that supplement or enhance our existing operations. We will continue to make investments in various education subsectors that complement our existing businesses and could create synergy. We will also invest in and partner with technology companies and content service providers to enhance our technology and content development capabilities.

OUR NETWORK

We deliver our comprehensive educational programs, services and products to students across China through our nationwide physical network of schools, learning centers and bookstores, as well as our pure-play online learning platforms. As of May 31, 2020, we had a physical network of 104 schools and 1,361 learning centers in 91 cities and approximately 41,400 teachers. We deliver online courses through our online learning platforms, including Koolearn.com, our comprehensive online education services platform; DFUB, our live interactive K-12 tutoring service tailored to students in lower-tier cities; and Donut, our online live English classroom courses for preschoolers. Powered by our OMO system, we have combined our offline network with online technologies and adopted different business models tailored to students in different locations to facilitate our operational efficiency. For example, for students in tier 1 cities, we primarily deliver courses in offline classroom settings, supported with interactive online learning components. For students in lower tier cities, we have adopted a dual-teacher model, where we broadcast courses delivered by well-known teachers from top-tier cities through our OMO system and have local assistant lecturers monitor and provide in-person guidance and interactions with students onsite. The dual-teacher model provides students in lower tier cities with access to top quality teachers in other cities with greater flexibility in terms of course schedule.

We distribute and sell books and other educational materials developed or licensed by us through our distribution channels, which consist of bookstores operated by us and third-party distributors. As of May 31, 2020, we had 12 bookstores operated by us, and 131 third-party distributors, who provided us with access to a nationwide network of online and offline bookstores. In addition, we have an extensive network of students and alumni, who we believe have been essential in helping us promote our brand and our programs, services and products by word-of-mouth referrals.

Almost all of our schools, learning centers and self-operated bookstores are operated under our “New Oriental” brand. Our schools in major cities consist of classrooms and administrative facilities with full student and administrative services, while our schools in satellite cities and our learning centers consist primarily of classroom facilities and limited course registration and management capabilities. We select new locations for our schools and learning centers based on various factors, including demographics, the number of schools or colleges in, and the economic condition of, the particular region. We have opened bookstores in some of our established schools to sell educational materials relating to our courses and also sell self-help, know-how, inspirational and other books.

BUSINESS

The following table sets forth information about the locations of our schools, learning centers and bookstores as of May 31, 2020.

City	Number of Schools	Number of learning	
		centers	Number of bookstores
Beijing	6	111	1
Shanghai	1	69	1
Guangzhou	1	49	1
Wuhan	1	58	1
Yangzhou	3	2	—
Tianjin	1	41	—
Xi'an	1	48	1
Nanjing	3	51	—
Shenyang	1	20	—
Chongqing	1	31	1
Chengdu	1	44	—
Shenzhen	1	21	—
Xiangyang	1	15	—
Taiyuan	1	35	—
Haerbin	1	16	1
Changsha	1	41	—
Jinan	1	30	—
Zhengzhou	1	41	—
Hangzhou	1	79	—
Changchun	3	21	1
Shijiazhuang	1	20	—
Suzhou	2	60	1
Zhuzhou	1	3	—
Anshan	1	0	—
Hefei	1	63	—
Kunming	1	12	—
Wuxi	1	21	—
Foshan	1	10	—
Fuzhou	1	30	—
Yichang	1	5	—
Nanchang	1	45	—
Jingzhou	1	3	—
Dalian	1	6	1
Lanzhou	1	12	1
Huangshi	1	3	—
Ningbo	1	11	—
Xiamen	1	27	—

BUSINESS

City	Number of Schools	Number of learning	
		centers	Number of bookstores
Qingdao	2	30	—
Nanning	1	20	—
Xuzhou	1	6	—
Xiangtan	1	3	—
Zhenjiang	1	4	—
Luoyang	1	12	—
Nantong	1	6	—
Jilin	1	10	—
Guiyang	1	7	—
Hohhot	1	10	1
Tangshan	1	12	—
Urumqi	1	8	—
Shiyan	1	4	—
Quanzhou	1	4	—
Wenzhou	1	11	—
Weifang	1	5	—
Zhuhai	1	4	—
Jinzhou	1	7	—
Baoding	1	4	—
Yantai	1	6	—
Taian	1	—	—
Kaifeng	1	1	—
Cangzhou	1	—	—
Qinhuangdao	1	—	—
Anyang	1	—	—
Handan	1	1	—
Zhangzhou	1	1	—
Nanyang	1	1	—
Zhongshan	1	—	—
Yinchuan	1	1	—
Shaoxing	1	8	—
Huzhou	1	1	—
Hong Kong	1	—	—
Yancheng	1	2	—
Lianyungang	1	1	—
Jiaozuo	1	6	—
Dongguan	1	—	—
Haikou	1	1	—
Yiwu	1	2	—
Jinhua	1	4	—

BUSINESS

City	Number of Schools	Number of learning	
		centers	Number of bookstores
Xining	1	1	—
Mianyang	1	—	—
Xinxiang	1	—	—
Baotou	1	—	—
Changshu	1	3	—
Yuci	1	—	—
Chengde	1	—	—
Huizhou	1	—	—
Zhangjiagang	1	—	—
Hebi	1	—	—
Zhumadian	1	—	—
Weihai	1	—	—
Xuchang	1	—	—
Xingtai	1	—	—
Total	<u>104</u>	<u>1,361</u>	<u>12</u>

OUR PROGRAMS, SERVICES AND PRODUCTS

We provide a wide variety of educational programs, services and products. We deliver education to our students in traditional classroom settings, in a combination of online and offline classroom setting with our dual-teacher model, and through our pure-play online platforms. Other than our primary and secondary schools and kindergartens, our classroom-based courses are generally designed to be completed in 2 to 16 weeks. Course fees are determined based on factors such as the length of the course, the size and the subject of the class, and the geographic location of the school. We offer flexible class sizes for our courses, including larger classes that range from 6 to 50 students per class and small classes that range from one to five students per class. Our program, service and product offerings are generally divided into seven areas: K-12 after-school tutoring; test preparation; language training for adults; pre-school, primary and secondary schools; education materials and distribution; online education; and other services. The following table provides a list of our current course offerings:

	Kindergarten	Elementary School						Middle School			High School			Higher Education
		1	2	3	4	5	6	7	8	9	10	11	12	
After-school tutoring														
Science	★	★	★	★										
Arts	★	★	★	★	★	★	★							
Robotics	★	★	★	★	★	★	★	★	★	★				
Mathematics	★	★	★	★	★	★	★	★	★	★	★	★	★	
English	★	★	★	★	★	★	★	★	★	★	★	★	★	
Chinese	★	★	★	★	★	★	★	★	★	★	★	★	★	
Physics								★	★	★	★	★	★	
Chemistry								★	★	★	★	★	★	
Biology								★	★	★	★	★	★	
History								★	★	★	★	★	★	
Geography								★	★	★	★	★	★	
Political Science								★	★	★	★	★	★	
Overseas test preparation														
TOEFL		★	★	★	★	★	★	★	★	★	★	★	★	★
IELTS								★	★	★	★	★	★	★
PTE								★	★	★	★	★	★	★
SSAT				★	★	★	★	★	★	★				
SAT									★	★	★	★	★	
ACT									★	★	★	★	★	
IGCSE										★	★	★	★	
AP											★	★	★	
SAT2											★	★	★	
A-Level												★	★	
IBDP												★	★	
GRE														★
GMAT														★
LSAT														★
Domestic test preparation														
CET-4 and CET-6														★
PRC Postgraduate Entrance Exam														★
Adult English training														★
Other foreign language training														★

K-12 After-School Tutoring Courses

We entered into the K-12 after school tutoring sector in the early 2000s. K-12 after-school tutoring courses refer to courses offered in our New Oriental Primary and Secondary School All Subjects Program (formerly known as the “Pop Kids All Subjects” program for kindergarten and primary school students and “New Oriental U-Can All Subjects” program for middle and high school students), which currently covers all academic subjects for kindergarten and primary school students, as well as middle and high school students.

After-School Tutoring Courses for Middle School and High School Students. Given the intense competition to gain admission into top high schools and higher education institutions in China, exam scores can be a deciding factor in gaining admission. Our after-school tutoring courses for middle school and high school students are designed to supplement students’ regular school curricula and help students improve their exam scores.

English proficiency is tested as a major subject of entrance exams for admission into China's high schools, colleges and universities. We first established our English after-school training program for middle and high school students in the early 2000s. In March 2008, we launched our "New Oriental U-Can All Subjects" training program, which covers all academic subjects for middle and high school in China and targets students from ages 13 to 18 who are preparing for the high school entrance examination in China, known as "zhongkao," and the college entrance examination, known as "gaokao." Gaokao is required for admission to bachelor's degree programs and most associate degree programs at Chinese colleges and universities. Students take our courses in affordable larger classes that typically range from 20 to 40 students per class, as well as higher priced small class tutoring, in particular, 1-on-1 tutoring. Our flexible class sizes enable us to meet the diversified education needs of students and capture a greater market share in the K-12 after-school tutoring market in China.

Our typical after-school tutoring courses for middle school and high school students last for 2 to 16 weeks with classroom instruction one to seven times per week for 1.5 to 4 hours per class. We also offer more intensive and condensed versions of our courses, in particular during the summer months when many academic institutions are on summer break.

In our fiscal year ended May 31, 2020, we had approximately 5,296,000 student enrollments in our after-school tutoring courses for middle school and high school students. Course fees for our all-subject after-school tutoring courses for middle school and high school students range from approximately RMB500 to approximately RMB5,500 per course.

After-School Tutoring Courses for Children. English is a major subject in primary schools. We established our English for children program in the early 2000s for children in kindergarten and primary school. We designed this program based upon the following principles: (1) we use localized materials originally published by international education content providers and publishers while taking into account the local public schools' curricula, and the skills and abilities of the individual student and adapting to his or her particular needs; (2) we assist students in mastering the basics of the language in various fun ways, including interactive games, activities and cultural studies; and (3) we help children develop a passion for learning the language and guide and inspire them to develop their self-learning abilities. In 2008, we launched our "Pop Kids All Subjects" training program, which includes after-school tutoring courses in English, Chinese, math, writing, music and arts for children in kindergarten and primary schools. In 2019, we grouped our "Pop Kids All Subjects" training program together with our "New Oriental U-Can All Subjects" program under "New Oriental Primary and Secondary School All Subjects" program.

We continuously seek to optimize our programs and services through technology development. For example, we developed our innovative English listening and speaking learning app, which combines our English teaching experience with AI-powered voice evaluation technology to help children improve their English listening and speaking skills and improve test scores.

Our after-school tutoring courses for kindergarten and primary school students are typically divided into classes of approximately 8 to 24 students per class. Students attend class approximately one time per week for 2 to 3 hours per class. We test our students to evaluate their learning progress and make sure they are progressing

as needed to advance to the next book and class level without jeopardizing the fundamentals that will allow them to excel in the future.

In our fiscal year ended May 31, 2020, we had approximately 4,444,000 student enrollments in our after-school tutoring courses for children. Course fees for these courses range from approximately RMB300 to approximately RMB4,000 per course.

Test Preparation Courses

We began offering TOEFL preparation courses in 1993. We have evolved to provide a wide range of test preparation courses to students taking language and entrance exams used by educational institutions in the United States, the PRC and Commonwealth countries. Our overseas test preparation courses primarily include IELTS, TOEFL, SAT, SSAT, ACT, GRE, GMAT and LSAT preparation courses and our PRC test preparation courses primarily include CET 4, CET 6 and Postgraduate Entrance Exam.

Our test preparation courses focus on quality instruction and test-taking techniques designed to help students achieve high scores on the admissions and assessment tests. We recognize that students begin test preparation at different levels, have different strengths and weaknesses, and learn at different rates. We offer a range of basic and advanced test preparation courses tailored to students at different levels.

In our fiscal year ended May 31, 2020, we had approximately 502,000 student enrollments in our test preparation courses, of which approximately 289,000 were in overseas test preparation courses, and 213,000 were in PRC test preparation courses. Our test preparation courses generally range from 6 to 40 students per class. We also have students from our overseas test preparation courses that take our small class, in particular 1-on-1, tutoring courses. Our students typically enroll in a 50 to 360 hour program with classes meeting one to six times per week for approximately 1 to 3 hours per class. We also offer intensive and condensed versions of our courses, which are compacted into shorter time periods. Course fees for our test preparation courses range from approximately RMB1,500 to RMB49,800 per course, as overseas test preparation courses generally have higher course fees.

Language Training Courses for Adults

We mainly provide various types of English language training courses, and to a lesser extent, training courses for other foreign languages, including German, Japanese, French, Korean, Italian and Spanish.

Our English for adults program offers courses primarily designed to teach and improve students' English writing, reading, listening and speaking skills. Our typical English course for adults lasts for 1 to 16 weeks with classroom instruction 1 to 5 times per week for 1.5 to 3.5 hours per class. We also offer more intensive and condensed versions of our courses. The class size of our English courses for adults typically range from approximately 6 to 40 students per class. Our other foreign language courses for adults consist of proficiency lessons and test preparation courses for language certification exams.

BUSINESS

In our fiscal year ended May 31, 2020, we had approximately 40,000 student enrollments in our English courses for adults. Course fees for our English courses for adults range from approximately RMB400 to approximately RMB7,600 per course.

Pre-school, Primary and Secondary Schools

We established our first full-time private primary and secondary school in Yangzhou in 2002. Our Yangzhou school is a private boarding school for students in grades 1 to 12 seeking a full curriculum, with a strong emphasis on English language training. As of May 31, 2020, there were over 3,400 students, over 369 teachers and over 242 supporting staff at the Yangzhou school. The school has been regarded as one of the best secondary schools in the local market for students looking to pursue higher education studies overseas. In our fiscal year ended May 31, 2020, tuition, including boarding fees, at the Yangzhou school ranged from RMB26,000 to RMB100,800 per year. Following the success of Yangzhou school, we opened an international high school in Beijing in July 2010, which has evolved into a private school for students in grades 1 to 12. In our fiscal year ended May 31, 2020, tuition, including boarding fees, at our Beijing school ranged from RMB126,800 to RMB184,700 per year. We established our pre-school business with the opening of our first kindergarten in Beijing in September 2007. We subsequently opened four more kindergartens in four cities and acquired three kindergarten chains in three cities.

After the promulgation of the Preschool Opinions, we did not make any investment in for-profit kindergartens using funds from the capital market or acquire any for-profit kindergartens assets with stock or cash consideration in order to comply with the Preschool Opinions. The contribution of kindergartens have been immaterial to our business, we derived less than 1% of our total net revenues from our kindergartens for each of the fiscal years ended May 31, 2018, 2019 and 2020. Based on the foregoing, our PRC Legal Adviser is of the view that the restrictions of the Preschool Opinions on the investment in or acquisition of for-profit kindergartens would not materially and negatively impact our business and operations. See “Risk Factors — Risks Related to Our Corporate Structure — If the PRC government finds that the agreements that establish the structure for operating some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

Educational Materials and Distribution

We develop and edit educational materials for language training and test preparation and distribute these materials through various distribution channels, consisting of our bookstores as well as third-party distributors. In our fiscal year ended May 31, 2020, we developed and edited approximately 260 titles and distributed approximately 17.1 million books authored or licensed by us in China. Most of the materials distributed by us are education-related and include the materials that we use in our courses and titles that we market for use in different education areas.

Our extensive distribution channels have attracted international education content providers to cooperate with us in distributing localized versions of their materials in China. For example, we have worked with

Cambridge University Press, Oxford University Press, Educational Testing Service, Cengage Learning, the Northern Consortium (NCUK) and other education content providers in distributing their education materials in China. With access to such high-quality education content, we further develop localized products that best serve the needs for millions of students and families in the China market.

Online Education

We commenced our online education services in 2005 through the Koolearn.com platform as one of the earliest online education providers in China. We have since evolved into a comprehensive online education services provider under Koolearn Technology Holding Limited, our majority-owned subsidiary, and offer comprehensive online education courses to students through our pure-play online learning platforms, including Koolearn.com, DFUB, and Donut. We provide a wide spectrum of courses to students in three core categories — college education, K-12 education and pre-school education. We offer our courses and programs in multiple formats, including live and pre-recorded courses in different class sizes.

College education. We launched online college education services in 2005 through our Koolearn.com platform. Our college educational services primarily include college test preparation, overseas test preparation, and English language learning, targeted to college students and working professionals preparing for standardized tests or seeking to improve their English language proficiency.

K-12 education. We launched online K-12 course offerings in 2015 through our Koolearn.com platform. Our K-12 educational services comprise after-school tutoring courses which cover the majority of standard school subjects from primary to high school in China, and test preparation courses designed for standardized college and high school entrance exams. To further penetrate our services to lower-tier cities, we also launched our innovative DFUB courses in 2017. DFUB is a live interactive tutoring service targeting students in lower-tier cities where offline infrastructure may not be as convenient and there is growing demand for an effective online platform accessible anytime, anywhere.

Pre-school education. We launched our online pre-school education through our Donut app series in 2012, which provides children with child-friendly online educational content. We launched our Donut live online classroom in 2017.

In addition, we also use our online education modules to provide educational content packages to schools and institutional customers such as universities, public libraries, telecom operators and online video streaming providers.

Other Services

Overseas Studies Consulting. Our consultants help students through the application and admission process for overseas educational institutions and provide useful college, graduate and career counseling advice to help students make informed decisions. We also counsel and assist students with the immigration process for overseas studies, such as obtaining visas and arranging housing.

Overseas Study Tour. We organize study tours for students to go overseas to learn foreign languages and other short-term curriculum, attend summer/winter school programs, or take part in other educational activities.

OUR TEACHERS

We have a team of passionate and high quality teachers that are essential to our success. We have established well-developed methods for hiring, training and retaining qualified teachers, which include a rigorous recruiting process, periodic training in teaching methods and skills, school culture and philosophy, as well as a competitive base salary coupled with performance-based bonuses. We believe that our competitive and incentivizing remuneration package, career advancement opportunities, and systematic teacher training programs allow us to recruit, train and retain top quality teachers in the industry. As of May 31, 2020, we employed approximately 41,400 teachers, many of whom are from top universities in China or have studied overseas. Our teachers consist primarily of full-time teachers, and to a lesser extent, contract teachers. The number of contract teachers we employ may be subject to seasonal fluctuations as we tend to have more student enrollments in our test preparation courses during summer school holidays.

Recruitment

Leveraging our extensive experience in the private education sector, we have been able to effectively recruit and retain high quality teachers across our course offerings. We have a strong multi-step recruitment process for prospective candidates, including (i) application; (ii) screening; (iii) qualification tests; (iv) in-person interviews; and (v) demonstration lessons. During the recruitment process, we focus on the educational background, teaching experience, communication skills and performance in demonstration lessons of the prospective candidates. We target prospective candidates who are passionate about education and who can effectively connect with and motivate our students.

Training and supervision

We have established systematic teacher training programs to standardize and streamline the professional training of our teachers. Our training focuses on standardizing and enhancing teaching methods, teaching new skills, and fostering a school culture based on innovation, inspiration and community. The systematic training programs also ensure that teachers can adapt to our innovative and inspirational instruction approach and adhere to the New Oriental culture throughout their teaching. We offer training through our online teacher training platform and onsite training courses both in China and overseas. Throughout our operating history, we have continually fine-tuned our teacher-training programs to strike a balance between standardized teaching to promote efficiency and creativity to foster innovation and inspiration.

Utilizing our data insights from our OMO system, we ensure consistency in teaching quality across our courses. We use our Quality Assurance Development (QAD) system to monitor and evaluate the performance of teachers. We identify the weaknesses of our teachers and provide tailored recommendations to them to address particular areas for improvement. We use our Visible Progress System (VPS) throughout our course delivery, providing a proprietary seven-step teaching method to standardize and maintain teaching quality across our

educational services. Our proprietary seven-step teaching method includes pre-lesson quizzes to reinforce previous course materials, teaching tools that help to standardize students' notes and grasp new knowledge points, local teachers and learning tools that monitor students' in-class learning progress, Q&A machines that allow teachers to quickly identify students' learning progress in-class and their areas for improvement, in-class post-lesson quizzes to identify students' learning outcome, post-class interactive exercises and quizzes for students to review and better grasp new knowledge, and online bulletin boards that post students' exam and quiz results.

Career advancement and compensation

We are committed to the career advancement of our teachers. Our different business models give our teachers exposure to a broad range of educational scenarios to enhance their teaching experience for our teachers. We motivate our teachers by providing a dual-track career development framework, under which our top quality teachers may be promoted as teacher trainers or considered for management positions in our company. We support our teachers in building their personal brand image and expanding their personal influence through various measures, including helping teachers publish their teaching content and providing enhanced support to teachers on their teaching platforms.

Our compensation package is comprised of a fixed base salary and performance-based bonus fees. We believe that the compensation package we offer to our teachers is among the highest in the private education industry in China. We believe that our competitive compensation and career advancement contributes to the stability of our teaching staff.

Our Proprietary Teaching Content and Methodologies

We emphasize the quality of our teaching content which is crucial to the effectiveness of our teaching methodologies. We had approximately 4,000 personnel involved in our content development as of May 31, 2020. Our proprietary seven-step teaching method ensures that we standardize and maintain consistent teaching quality across our educational services. We develop our proprietary educational materials for our language training and test preparation courses, and leverage our big data algorithms and massive student data base to tailor course materials based on student learning behavior and performance. We continuously update our educational materials and expand our course offerings to ensure we stay abreast of the latest education trends. In addition, we distinguish ourselves from our competitors by publishing our in-house developed educational materials via partnerships with international education content providers, which enables us to increase market share in the competitive private education industry.

TECHNOLOGY CAPABILITIES AND INFRASTRUCTURE

Our continuous development in technology capabilities has contributed to our sustained success in the private education industry. We believe our strong technology capabilities enable us to deliver a superior learning experience and improve our operational efficiency. We employ experienced research and development personnel to build, maintain and upgrade our technologies and systems. With the development of our online and offline

integration, we have increased our research and development staff in recent years. We had approximately 900, 1,800 and 4,000 research and development personnel as of May 31, 2018, 2019 and 2020, respectively.

Our online and offline integration

We have integrated our offline network and operations with online technology for our educational services and operations. Our OMO system serves as the core of this integration. We developed and launched our OMO system in 2014 as a standardized digital classroom teaching system to digitalize our offline teaching materials and education resources. Capitalizing on our technology advancements, we continued to upgrade the functions and features of our OMO system over the years and it has evolved into an online education system, with a comprehensive set of technologies and initiatives that complements and supports students' offline learning activities and improves students' learning experience. Our OMO system has been extensively integrated into our educational services and operations.

Leveraging our big data analytics capabilities, our OMO system provides multiple interactive online learning features that benefit students, teachers, and parents, including offering self-adaptive and interactive courseware to students, pushing customized content to students, recommending additional courses based on their online study records and performance, offering real-time feedback to parents to help improve students' academic performance and closely connecting teachers, students and parents. For example, we have developed the Visible Progress System (VPS), which provides a proprietary seven-step teaching method and divides students' grasp of knowledge into six levels to create clear measurement standards that visualizes students' learning progress. This allows students to immediately and clearly see the results of their own efforts and parents and teachers to monitor each student's learning progress. Students have a clearer understanding of which level they have achieved, and the requirements for the next stage of their learning. Teachers can give targeted guidance to students during the teaching process. Our OMO system also helps teachers prepare lessons, both those delivered online and offline, through a standardized and structured process. Based on our rich database, teaching materials can be generated automatically and tailored to the needs of the specific classes.

The integration of online and offline education powered by our OMO system also allows us to quickly adapt to the constantly evolving private education industry trends, further strengthening our leadership position in the private education industry. We have achieved high scalability with our dual-teacher model tailored to students in lower-tier cities and offered new innovative course offerings to address unmet student demands.

Big data analytics technology

Throughout our long operating history, we have accumulated a large student data base, including complex students' learning behavior and performance data, and extensive data on teaching techniques, materials, and resources, while maintaining a high standard of data protection and privacy. We have built strong data analytics capabilities using algorithms, models and data analytics tools. Our OMO system leverages big data analysis to enhance our operational efficiency, including understanding students' learning needs and generating customized teaching content and services for each student, as well as allowing teachers to prepare lessons through a standardized and structured process. Our OMO system not only benefits from our extensive data accumulated

over our long operating history and as a result of our large scale, but also constantly accumulates more data from all participants in the education ecosystem, such as students, teachers, parents, and administrators, through a wide range of interfaces and terminals. As the database expands with the accumulation of new data, we continue to advance and evolve our data analytics capabilities. The continued accumulation of data also enables us to develop new teaching services, which in turn feeds new data back into the system, creating a virtuous cycle.

AI-powered technologies

Our access to a vast amount of student data enables us to develop and refine robust AI technologies. We have developed a series of AI-driven learning systems and learning tools to improve teaching and learning efficiency, including:

Proprietary self-adaptive learning system. Since 2014, we have developed our self-adaptive learning system which dynamically adjusts the course content based on students' in-class performance and progress to help them to better grasp key knowledge points.

Proprietary computerized assessment testing system. We have developed our computerized assessment testing system which tests students' capabilities and presents summary reports on students' performance in class and within their student group.

Interactive courseware. We have developed digital interactive courseware which standardizes course materials and provides more interaction between teachers and students.

Realskill. Realskill is a learning platform developed by a joint venture between our company and an AI company in China. The platform utilizes our teaching expertise, materials, data and other resources with deep learning algorithms. The platform automatically and intelligently grades and comments on students' writing for IELTS and TOEFL and speaking practices for TOEFL based on AI-powered analysis of authentic test materials. The platform can be used by students for personal learning purposes and teaching institutions for teaching services and platform and engine access.

Technology Platform and Infrastructure

Our technology platform is designed to provide systems that help distinguish ourselves in the marketplace, operate cost-effectively and accommodate future growth. Our technology platform is a combination of our proprietary self-adaptive learning systems, content management systems, interactive courseware, exam platforms, computerized assessment testing systems, a proprietary Visible Progress System, and big data analytics. We have been investing in infrastructure to achieve simplification of the storage and processing of large amounts of data, facilitation of the deployment and operation of large-scale programs and services, automation of much of the administration of our business, and the ability to scale both capacity and functionality and build large clusters seamlessly.

One of our ongoing focuses is to maintain reliable systems. We have implemented performance monitoring for all key web and business systems to enable us to respond quickly to potential problems. Based on cluster

BUSINESS

technology, our system can identify errors and isolate failed servers automatically so that our customers can access our services at any time. Our websites are hosted at third party facilities in Beijing. These facilities provide redundant utility systems, a backup electric generator and 24-hour a day server support. All servers have redundant power supplies and file systems to maximize system and data availability. We regularly back up our database on a server hosted at an Internet data centre to minimize the impact of data loss due to system failures. We do not capitalize any related costs.

Application of 5G

We have partnered with hardware service providers and telecom operators to provide remote education services leveraging 5G technologies to further differentiate us from smaller-scale peers and at the same time reduce reliance on local teachers. We have also been helping students from remote and less developed areas to gain access to high quality teaching content with the help of 5G technology and we are committed to continuing to do so as the technology improves.

DATA PRIVACY AND SECURITY

We are committed to protecting our students and parents' personal information and privacy. We have established and implemented internal policies on data collection, processing and usage. We collect personal information and other data that is related to the products and services we provide, with students and (in the case of minors) parents' prior consent.

To ensure the confidentiality and integrity of our data, we maintain comprehensive and rigorous data security measures. We anonymize and encrypt confidential personal information and take other technological measures to ensure the secure processing, transmission and usage of data. We have also established stringent internal protocols under which we grant classified access to confidential personal data only to limited employees with access authorization.

We have built a backup system that runs on different servers to minimize the risk of data loss. Our back-end security system handles malicious attacks to safeguard the security of our data.

See “Risk Factors — Risks Related to Our Business — Capacity constraints or system disruptions to our computer systems or websites, any cybersecurity incidents, or a leak of student data could damage our reputation, limit our ability to retain students and increase student enrollments and require us to expend significant resources” and “— Failure to comply with governmental regulation and other legal obligations concerning personal information protection may adversely affect our business, as we routinely collect, store and use personal information during our business.”

MARKETING AND STUDENT ACQUISITION

We have a variety of marketing and student acquisition channels to attract new and retain existing students. We primarily attract prospective students through our brand name, the quality of our education services and

products and our long operating history. In addition, our OMO system amplifies student acquisition effectiveness while reducing acquisition costs, enabling us to multiply student acquisition efforts. We integrate our offline presence with online traffic acquisition channels, media and efforts, such as providing online demonstration courses and social media promotions, to attract prospective students.

We employ the following marketing and student acquisition channels to attract new and retain existing students:

Referrals. With nearly 30 years of operating history, we have successfully established “New Oriental” as one of the most trusted brands with well-established brand recognition in the private education industry. We have focused on delivering high quality and differentiated educational services and products to across two generations of students in China. Our strong brand has allowed us to generate significant organic growth in student enrollments through word-of-mouth referrals. We expect our student enrollments to continue to grow from referrals through our extensive network of students and alumni.




Cross-Selling. As we have presence in different markets, we use our programs in one market as an opportunity to advertise our programs in other markets. With a variety of programs aimed at different age groups, our goal is to encompass students’ lifelong learning journeys and cross-sell our course offerings to maximize students’ lifetime value. Outside of our network, we have established cross-promotional relationships with a number of companies to promote our programs, services and products and awareness of our brand.

Speeches and Seminars. Our management, most of whom are experienced teachers and were among our earliest teachers, and our teachers give speeches at colleges, universities, high schools and middle schools and to student groups, parent groups and educational organizations. They also participate in educational seminars and workshops. Their speeches include direct program promotion speeches during which they directly explain the merits and advantages of our programs or general English learning methods, as well as inspirational speeches designed to motivate students to reach their full potential and strive for success.

Summer Promotion Programs. We attract students through our summer promotion programs, which has been an effective and cost-efficient student acquisition channel. We provide precision marketing to target students through our summer promotion programs to attract more students to attend our courses in the fall semester.

Demo Courses and Advertisements. We provide online demo courses and social media promotions to attract target students, which has enabled us to maintain growth in student acquisition while reducing acquisition costs. We also advertise through our own websites and also on China’s mainstream online media channels, news and vertical websites. We also have advertising arrangements with traditional media, such as outdoor displays, building lobby displays or elevator LCD displays.

INTELLECTUAL PROPERTY

Our trademarks, copyrights, trade secrets and other intellectual property rights distinguish our services and products from those of our competitors and contribute to our competitive advantage in our target markets. To protect our brand and other intellectual property, we rely on a combination of trademark, copyright and trade secrets laws as well as confidentiality agreements with our employees, contractors and others. As of May 31, 2020, we had many works of art copyrights and software copyrights in China relating to various aspects of our operations, and 16 main trademark registrations in China, of which “”, “”, and “” have been recognized as “well-known trademarks” in civil action adjudicated and/or administrative determination in China. Our main websites are located at www.xdf.cn, www.neworiental.org and www.koolearn.com. In addition, we have registered other domain names, including dogwood.com.cn, blingabc.com, ileci.com, donut.cn, 51pigai.com and steamxdf.com.

We have adopted guidelines, procedures and safeguards designed to educate our employees and contractors regarding the importance of respecting the intellectual property rights of third parties, and detect and prevent any conduct or activities by our employees or contractors that infringe or have the potential to infringe upon such third-party rights. The guidelines specify certain key principles and policies that we require all of our employees and contractors to uphold as a fundamental condition of their employment. The procedures and safeguards we have implemented to ensure compliance with these principles and policies include the assignment of dedicated staff to monitor and enforce compliance with these intellectual property guidelines, including in particular our content control group, which reviews the content of our course materials to ensure that no infringing materials are used in our classrooms. We have also made efforts to ensure that our marketing materials are reviewed and approved by appropriate management before being distributed to the public. We believe these guidelines, procedures and safeguards increase our ability to avoid infringing or potentially infringing activities, reduce our exposure to third party claims and protect our reputation as a company that respects the intellectual property rights of third parties.

INSURANCE

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased limited liability insurance for some of our schools and learning centers. We also provide social security insurance for our employees as required by PRC law. We maintain key-man life insurance. We consider our insurance coverage to be in line with that of other private education providers in China.

COMPETITION

The private education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We face competition in each major program we offer and each geographic market in which we operate. For example, we face competition from companies that focus on providing K-12 after-school tutoring services, test preparation and language training services in China.

BUSINESS

We believe that the principal competitive factors in our markets include the following:

- brand recognition;
- nationwide coverage and high level of scalability;
- high teaching quality with superior content;
- breadth and quality of program, service and product offerings;
- overall student experience; and
- innovative technology capabilities.

We believe that our primary competitive advantages are our well-known “New Oriental” brand, our innovative and inspirational instruction methods and the breadth and quality of our programs, services and products. However, some of our existing and potential competitors may have more resources than we do. These competitors may be able to devote greater resources than we can to the development, promotion and sale of their programs, services and products and respond more quickly than we can to changes in student demands, testing materials, admissions standards, market needs or new technologies. In addition, we face competition from many different smaller sized organizations that focus on some of our targeted markets, which may be able to respond more promptly to changes in students’ preferences in these markets.

We also face competition from online education service providers that offer online after-school tutoring services, test preparation and language training courses. These online education service providers use advanced technologies, such as online live broadcasting technologies, to offer their programs, services and products quickly and cost-effectively to a large number of students.

SEASONALITY

We have experienced, and expect to continue to experience, seasonal fluctuations in our operations, primarily due to seasonal changes in student enrollments. Historically, our test preparation courses tend to have the highest revenue in our first fiscal quarter, which runs from June 1 to August 31 of each year, primarily because a significant number of students enroll in our courses during the summer vacation to prepare for admissions and assessment tests. In addition, we have generally experienced higher revenue in our third fiscal quarter, which runs from December 1 to February 28 of each year, primarily because many students enroll in our test preparation courses during the winter school holidays. Our K-12 after-school tutoring courses tend to have higher revenue in the second half of our fiscal year, primarily because we gain more student enrollments as it gets closer to the exam season, such as the Zhongkao and Gaokao. We expect quarterly fluctuations in our revenues and results of operations to continue.

BUSINESS

EMPLOYEES

We had 44,531, 54,758 and 69,438 full-time employees and 9,711, 9,569 and 11,689 contract teachers and staff as of May 31, 2018, 2019 and 2020, respectively.

We enter into employment contracts with our full-time employees which contain standard confidentiality provisions. We also enter into standalone confidentiality and non-compete agreements with our key full-time employees. Our contract teachers generally enter into exclusive service agreements with us.

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments for our PRC-based full-time employees, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing fund. We are required under PRC law to make contributions to employee benefit plans for our PRC-based full-time employees at specified percentages of the salaries, bonuses and certain allowances of such employees, up to a maximum amount specified by the local governments in China.

Our employees are not covered by any collective bargaining agreement. We consider our relations with our employees to be generally good.

CUSTOMERS AND SUPPLIERS

Our customers primarily consist of our students, and we did not have any single customer who accounted for more than 5% of our revenue for each of the years within the Track Record Period.

Given we have a large supplier base, our largest five suppliers accounted for less than 8% of our total purchases for each of the years within the Track Record Period.

PROPERTY, PLANTS AND EQUIPMENT

Our headquarters are located in Beijing, China, where we own approximately 49,000 square meters of office, training centre and classroom space. In addition, we own approximately 210,000 square meters of schools in Yangzhou and an aggregate of approximately 47,000 square meters of space for our schools, learning centers and bookstores in Xi'an, Tianjin, Kunming, Wuhan, Guangzhou, Xiamen, Changsha, Hangzhou, Zhengzhou and Hefei. We lease all of our facilities for our schools, learning centers and bookstores in 78 other cities throughout China. For more information concerning our schools, learning centers and bookstores, see “— Our Network.”

LEGAL AND ADMINISTRATIVE PROCEEDINGS

From time to time, we may be subject to legal or regulatory proceedings, investigations and claims incidental to the conduct of our business.

Litigation

Our company and CEO Chenggang Zhou have been named as defendants in a putative securities class action filed in the United States District Court for the District of New Jersey: Amy Chan v. New Oriental Education & Technology Group Inc., et al., Civil Action No. 16-cv-9279-KSH-CLW (filed on December 15, 2016). On March 30, 2017, the court entered an order appointing lead plaintiffs of this action. On May 30, 2017, the lead plaintiffs filed their first amended complaint.

The pending action was purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their trading in our ADSs between September 28, 2016 and December 1, 2016. The first amended complaint alleges that our company's public filings contained material misstatements and omissions in violation of the U.S. federal securities laws. In particular, the first amended complaint alleges that the Company helped students "ghostwrite" their college applications in contravention of the Company's public disclosures, which had described the Company's services as being in the nature of academic consulting and advice. On July 31, 2017, our company filed a motion to dismiss the first amended complaint. On July 3, 2019, the court granted our company's motion to dismiss the first amended complaint in its entirety for failure to state a claim. However, at plaintiffs' request, the court allowed plaintiffs to amend their complaint again.

On August 19, 2019, pursuant to the leave granted by the court, the lead plaintiffs filed their second amended complaint advancing similar allegations against those in the first amended complaint. The main substantive difference with the first dismissed complaint is that the second amended complaint includes allegations from additional purported anonymous former employees. On September 3, 2019, our company filed a motion to dismiss the second amended complaint. On May 5, 2020, the court administratively terminated the case upon the parties' notification of their intention to settle the matter, if possible. On June 3, 2020, the lead plaintiffs filed a motion for preliminary approval of a class action settlement, which is now pending before the court. The case remains ongoing.

We and our legal advisers are of the view that this lawsuit is without merit because, among other reasons, our Company's first motion-to-dismiss was granted in its entirety by the court. Among other bases for our arguments for dismissal that the court accepted are that plaintiffs failed to advance any well-pled allegations supporting the required legal elements of misstatements or omissions and scienter. The second amended complaint is, as explained above, substantially similar to the first one, and we believe it is without merit for substantially the same reasons. Although the parties decided to settle the case while the second motion-to-dismiss was pending, after more than three years since the commencement of this litigation, the settlement does not involve any admission by either party.

For risks and uncertainties relating to the pending case against us, please see "Risk Factors — Risks Related to Our Business — We and certain of our directors and officers have been named as a defendant in a putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operations, cash flows and reputation."

We have been subject to copyright, trademark and trade name infringement claims and legal proceedings in the past which related to, among other things, infringement of third parties' copyrights in materials distributed by

BUSINESS

us and the unauthorized use of a third party's name in connection with the marketing and promotion of one of our programs, and we may be subject to similar claims and legal proceedings from time to time in the future. As of the Latest Practicable Date, we were involved in 13 outstanding intellectual property infringement actions, as the plaintiff in seven and defendant in six (which were brought by the same plaintiff), where the amount claimed by the plaintiff is immaterial to the Company. See "Risk Factors — Risks Related to Our Business — Third parties have in the past brought intellectual property infringement claims against us based on the content of the books and other teaching or marketing materials that we or our teachers authored and/or distributed and may bring similar claims against us in the future."

In the opinion of Tian Yuan Law Firm, our PRC Legal Adviser, our Significant Subsidiaries incorporated in the PRC were in compliance with relevant PRC laws and regulations in all material aspects during the Track Record Period.

FINANCIAL INFORMATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountants' Report in Appendix I and in "Business." This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set out under "Risk Factors" and elsewhere in this document. We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on May 31 and references to fiscal years 2018, 2019 and 2020 are to the fiscal years ended May 31, 2018, 2019 and 2020, respectively.

OVERVIEW

We are the most comprehensive private educational services provider in China in terms of service and product offerings, according to Frost & Sullivan. We are committed to offering comprehensive educational services and products to meet the evolving needs of students in each stage of their life (from kindergarten through to adult), including K-12 after-school tutoring ("AST"), test preparation, language training, pre-school, primary and secondary schools, education materials and distribution, online education, and other services. Our educational services are delivered via our nationwide physical network of 104 schools, 1,361 learning centers and 12 bookstores under our "New Oriental" brand across 91 cities in China as of May 31, 2020, as well as our online learning platforms under the "Koolearn," "DFUB," and "Donut" brands.

Our education ecosystem as a whole has achieved significant scale. As of May 31, 2020, we had accumulated over 55.4 million student enrollments. Our student enrollments in this document refer to those for our K-12 AST, test preparation, and other courses (which we formerly referred to as language training and test preparation courses). Our total net revenues increased from US\$2,447.4 million for the fiscal year ended May 31, 2018 to US\$3,578.7 million for the fiscal year ended May 31, 2020, representing a CAGR of 20.9%. Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders increased from US\$296.1 million in the fiscal year ended May 31, 2018 to US\$413.3 million in the fiscal year ended May 31, 2020, representing a CAGR of 18.1%.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

General Factors Affecting Our Results of Operations

We have benefited significantly from favorable demographic trends, the overall economic growth and the demand for high-quality educational services in China. We expect that the demand for private educational services in China will be driven by (i) continued population growth and increasing disposable income per capita along with increasing level of urbanization, (ii) increasing education and employment opportunities requiring educational services beyond school curriculum, and (iii) advancement and wide application of innovative technology. However, any adverse changes in the economic conditions or regulatory environment in China may have a material adverse effect on the private education industry in China, which in turn may harm our business and results of operations and any heightened tension in international relations or global pandemic can have an adverse impact on our overseas related businesses, such as test preparation and consulting services.

FINANCIAL INFORMATION

Specific Factors Affecting Our Results of Operations

While our business is influenced by factors affecting the private education industry in China generally and by conditions in each of the geographic markets we serve, we believe our business is more directly affected by company-specific factors such as the number of student enrollments, the amount of course fees and our operating cost and expenses.

The number of student enrollments is in turn largely driven by the demand for our courses, our ability to maintain the consistency and quality of our teaching, our established brand and reputation and effectiveness of our marketing and brand promotion efforts, our ability to optimize our comprehensive online and offline integrated education ecosystem and our OMO (online-merge-offline) standardized digital classroom teaching system on a constant basis, the locations of our schools and learning centers, and our ability to respond to competitive pressure, as well as seasonal factors. The demand for our courses also depends on the continued use of admissions and assessment tests by educational institutions and governmental authorities both in China and abroad. We determine course fees primarily based on demand for our courses, the targeted market for our courses, the subject of the course, the geographic location of the school, cost of services, and the course fees charged by our competitors for the same or similar courses. We typically adjust course fees or school fees based on the market conditions of the city where the particular school is located, subject to the relevant local governmental authority's advance approval, if required. The level of our operating cost and expenses will depend on our ability to carry out our systemized and centralized approach to improve operational efficiency through refinement of our centralized operation platform that supports all service offerings and continued investment in technologies.

Our future results of operations will depend significantly upon our ability to increase student enrollments both online and offline and further expand our school network throughout China, as well as offer a greater variety of courses, including smaller-size classes. Our planned expansion may result in substantial demands on our management, operational, technological, financial and other resources. To manage and support our growth, we must improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain additional qualified teachers and school management personnel as well as other administrative and sales and marketing personnel, particularly as we grow outside of our existing markets. We will continue to implement additional systems and measures and recruit qualified personnel in order to effectively manage and support our growth. If we cannot achieve these improvements, our financial condition and results of operations may be materially adversely affected.

Impact of COVID-19

The outbreak of COVID-19 pandemic around the globe has had and is expected to continue to have an impact on our operations and financial performance. Our student acquisition efforts were affected, and the enrollment for summer courses were delayed. While our K-12 AST courses experienced continued growth, our overseas related businesses, including test preparation and consulting services, have been negatively affected due to cancelation of overseas exams, suspension of overseas schools and restrictions on travels.

FINANCIAL INFORMATION

During the COVID-19 outbreak, our continued investment in OMO system enabled us to swiftly and effectively move our offline classes to online live broadcasting classes while maintaining the high quality of our services. Our students' satisfaction and the effectiveness of our online courses through our OMO system was demonstrated by more students retained from winter to spring semester and from spring to summer semester as compared with the same period during last fiscal year. We incurred additional selling and marketing expenses as we ramped our marketing efforts to capture new market opportunities during COVID-19 pandemic, especially for new initiatives in K-12 AST on our pure online education platform, Koolearn.com. We believed that we are also well positioned to further consolidate the market in the aftermath of the pandemic.

The COVID-19 outbreak may continue affect our business operations and its financial condition and operating results for the fiscal year 2021, including but not limited to negative impact to our total revenues, fair value adjustments or impairment to our long term investments.

SELECTED STATEMENTS OF OPERATIONS ITEMS

Net Revenues

In the fiscal years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, we generated total net revenues of US\$2,447.4 million, US\$3,096.5 million, US\$3,578.7 million and US\$986.4 million, respectively. Our revenues are net of PRC business taxes and related surcharges as well as refunds.

We currently derive revenues from the following sources:

- educational programs and services, which accounted for 88.5%, 90.0%, 90.3% and 94.9% of our total net revenues in the fiscal years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, respectively; and
- books and other services, which accounted for 11.5%, 10.0%, 9.7% and 5.1% of our total net revenues in the fiscal years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, respectively.

Educational Programs and Services

Our educational programs and services consist of K-12 AST, test preparation, and other courses, pre-school education, primary and secondary school education and online education. Revenues from K-12 AST, test preparation, and other courses accounted for 82.7%, 84.2%, 85.0% and 88.7%, respectively, of our total net revenues in the fiscal years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020. We expect to continue to derive a substantial majority of our revenues from educational programs and services.

We recognize revenues from course fees collected for enrollment in our K-12 AST, test preparation, and other courses and online education proportionally as we deliver the instruction over the period of the course. Course fees are generally paid in advance by students and are initially recorded as deferred revenue. Students are

FINANCIAL INFORMATION

entitled to a short-term trial period which commences on the date the course begins. Tuition refunds are provided to students if they decide within the trial period that they no longer want to take the course. After the trial period, if a student withdraws from a class, usually only those collected but unearned portion of the fee is available to be refunded. We recognize revenues from school fees collected for enrollment in our pre-school education and primary and secondary schools ratably over the corresponding academic year.

Our courses generally have the highest revenue in our first fiscal quarter within the same fiscal year, which runs from June 1 to August 31 of each year, primarily because many students enroll in our courses during the summer vacation to prepare for admissions and assessment tests in subsequent school terms. In addition, we have generally experienced higher revenue in our third fiscal quarter, which runs from December 1 to February 28 of each year, primarily because many students enroll in our test preparation courses during the winter school holidays. Our K-12 AST courses tend to have higher revenue in the second half of our fiscal year, primarily because we gain more student enrollments as it gets closer to the exam season, such as the Zhongkao and Gaokao. We expect quarterly fluctuations in our revenues and results of operations to continue.

Books and Other Services

We distribute and sell books and other educational materials developed or licensed by us through our own distribution channels, which consist of our bookstores and websites, and also through third-party distributors. We normally provide books and other educational materials that are required for our courses and do not separately charge students for these items. We recognize revenues from sales of books and other educational materials when the products are sold to end customers. As we believe successful content development is important to the success of our business, we intend to continuously enhance the quality and breadth of our education content offerings and distribute more books and other educational materials through our own bookstores, as well as third-party distributors.

Other service revenues are primarily derived from consulting services to students regarding overseas studies and study tours.

FINANCIAL INFORMATION

Operating Cost and Expenses

Our operating cost and expenses consist of cost of revenues, selling and marketing expenses and general and administrative expenses. The following table sets forth the components of our operating cost and expenses and as a percentage of total net revenues for the periods indicated.

	For the Years Ended May 31,						For the Three Months Ended August 31,			
	2018		2019		2020		2019		2020	
							<i>(unaudited)</i>		<i>(unaudited)</i>	
(in thousands, except percentages)	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Net revenues	2,447,430	100.0	3,096,491	100.0	3,578,682	100.0	1,071,777	100.0	986,366	100.0
Operating cost and expenses:										
Cost of revenues	(1,065,740)	(43.5)	(1,376,269)	(44.5)	(1,588,899)	(44.4)	(440,229)	(41.1)	(464,866)	(47.1)
Selling and marketing	(324,249)	(13.2)	(384,287)	(12.4)	(445,259)	(12.4)	(101,193)	(9.4)	(116,883)	(11.8)
General and administrative	(794,482)	(32.5)	(1,034,028)	(33.4)	(1,145,521)	(32.0)	(284,159)	(26.5)	(254,312)	(25.8)
Total operating cost and expenses	<u>(2,184,471)</u>	<u>(89.2)</u>	<u>(2,794,584)</u>	<u>(90.3)</u>	<u>(3,179,679)</u>	<u>(88.9)</u>	<u>(825,581)</u>	<u>(77.0)</u>	<u>(836,061)</u>	<u>(84.8)</u>

Cost of Revenues

Cost of revenues for educational programs and services primarily consists of teaching fees and performance-linked bonuses paid to our teachers and rental payments for our schools and learning centers and, to a lesser degree, depreciation and amortization of property and equipment used in the provision of educational services, as well as costs of course materials.

Our teachers consist of both full-time teachers and contract teachers. Full-time teachers deliver instruction and may also be involved in management, administration and other functions at our schools. Full-time teachers' compensation and benefits primarily consist of teaching fees based on hourly rates, performance-linked bonuses based on student evaluations, as well as base salary, annual bonus and standard employee benefits in connection with their services other than teaching. Compensation of our contract teachers, who we mainly hire based on fluctuation in demand, is comprised primarily of teaching fees based on hourly rates and performance-linked bonuses based on student evaluations and other factors. We account for teaching fees and performance-linked bonuses paid to our teachers as cost of revenues as they are directly associated with the provision of educational services. Cost of books and other materials primarily consist of printing costs of books and other materials, and licenses fees, royalties and other fees paid to content licensors, publishing companies and third-party distributors. We anticipate that our total cost of revenues will continue to increase as we continue to open new schools and learning centers and hire additional teachers.

FINANCIAL INFORMATION

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of human resources expenses and other expenses relating to advertising, seminars, marketing and promotional trips and other community activities for brand promotion purpose. We expect that our selling and marketing expenses will continue to increase as we further expand into new geographic locations and enhance our brand recognition.

General and Administrative Expenses

Our general and administrative expenses primarily consist of compensation and benefits of administrative staff, R&D expenses, costs of third-party professional services, rental and utilities payments relating to office and administrative functions, and depreciation and amortization of property and equipment used in our general and administrative activities. We expect that our general and administrative expenses will increase in the near term as we hire additional personnel and incur additional costs in connection with the expansion of our business.

Share-based Compensation Expenses

In January 2016, we adopted the 2016 Share Incentive Plan, under which we are authorized to issue up to 10,000,000 common shares pursuant to awards (including options) granted to our employees, directors and consultants. Since the adoption of our 2016 Share Incentive Plan, we have granted a total of 3,132,665 non-vested equity shares, among which, 1,029,304 and 181,715 were granted in the fiscal years ended May 31, 2019 and 2020, respectively, 77,224 and 143,744 shares were forfeited in the fiscal years ended May 31, 2019 and 2020, respectively.

On July 13, 2018, the board of directors of Koolearn approved an employee's share option plan, or the Koolearn Pre-IPO Share Option Scheme, under which Koolearn is authorized to issue up to 47,836,985 ordinary shares pursuant to awards granted to the directors, senior management, employees and contractors of Koolearn. Since the adoption of the Koolearn Pre-IPO Share Option Scheme, Koolearn has granted options to obtain an aggregate of 47,836,985 shares in Koolearn to 144 grantees under the Koolearn Pre-IPO Share Option Scheme. 2,360,000 shares were forfeited and 3,129,000 shares were canceled in the fiscal year ended May 31, 2020.

On January 30, 2019, the board of directors of Koolearn approved an employee's share option plan, or the Koolearn Post-IPO Share Option Scheme, under which Koolearn is authorized to issue up to 91,395,910 ordinary shares pursuant to awards granted to, among others, directors, employees of Koolearn or its affiliate. Since the adoption of the Koolearn Post-IPO Share Option Scheme, Koolearn has granted options to obtain an aggregate of 40,000,000 shares in Koolearn to 552 grantees under the Koolearn Post-IPO Share Option Scheme. 1,801,000 shares were forfeited and nil shares were canceled in the fiscal year ended May 31, 2020.

We account for share-based compensation expenses in accordance with an authoritative accounting pronouncement, which requires share-based compensation expense to be determined based on the fair value of our common shares as of their grant date. The following table sets forth the allocation of our share-based compensation expenses (including Koolearn's share-based compensation expenses), both in absolute amount and

FINANCIAL INFORMATION

as a percentage of total share-based compensation expenses, among our employees based on the nature of work which they were assigned to perform.

	For the Years Ended May 31,						For the Three Months Ended August 31,			
	2018		2019		2020		2019		2020	
							<i>(unaudited)</i>		<i>(unaudited)</i>	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
(in thousands, except percentages)										
Allocation of Share-based Compensation Expense:										
Cost of revenues	—	—	134	0.2	2,224	3.6	36	0.3	1,483	9.4
Selling and marketing . . .	—	—	1,205	1.7	4,227	6.8	365	3.3	2,597	16.4
General and administrative	57,443	100.0	69,997	98.1	55,606	89.6	10,619	96.4	11,753	74.2
Total	<u>57,443</u>	<u>100.0</u>	<u>71,336</u>	<u>100.0</u>	<u>62,057</u>	<u>100.0</u>	<u>11,020</u>	<u>100.0</u>	<u>15,833</u>	<u>100.0</u>

For options granted to our employees and directors, we record share-based compensation expenses based on the fair value of our common shares underlying options as of the date of option grant and amortize the expenses over the vesting periods of the options. For non-vested equity shares granted to employees and directors, we record share-based compensation expenses based on the quoted market price of our ADSs on the grant date and amortize the expenses over the vesting periods of the non-vested equity shares.

Taxation

Cayman Islands

We are continued and registered 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.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK\$2,000,000; and 16.5% on any part of assessable profits over HK\$2,000,000. Under the Hong Kong tax law, our Hong Kong subsidiaries are exempted from the Hong Kong income tax on its foreign-derived income. Hong Kong does not impose a withholding tax on dividends.

FINANCIAL INFORMATION

PRC

Other than our primary and secondary schools, our operating entities in China are subject to a value-added tax (“VAT”) at varying rates ranging from 3% to 16% (or 13% starting April 1, 2019) on their respective net revenues. Our operating entities that provide educational services are subject to a simple VAT collection method and apply for a 3% VAT rate since June 2016 according to the Notice of the Ministry of Finance and the State Administration of Taxation on Further Clarifying the Policies regarding Reinsurance, Immovable Property Leasing and Non-Academic Education in the Comprehensive Promotion of the Pilot Program of Replacing Business Tax with Value-Added Tax, or the Circular 68. VAT is reported as a deduction to revenue when incurred.

With regard to income tax, enterprises in China are generally subject to enterprise income tax at a rate of 25%. Enterprises that qualify as “high and new technology enterprises” are entitled to a favorable enterprise income tax rate of 15% rather than the 25% uniform statutory tax rate. Such qualification is reassessed by relevant governmental authorities every three years. Five of our wholly-owned subsidiaries in China, including Beijing Pioneer, Beijing Smart Wood and three other subsidiaries, are qualified as “high and new technology enterprises.” Beijing Hewstone, Beijing Decision and other two wholly owned subsidiaries in China, are in the process of renewing its qualification of “high and new technology enterprises.” Once the renewal are completed, these subsidiaries will be eligible for a favorable enterprise income tax rate of 15% starting January 1, 2020. Beijing New Oriental Dogwood Cultural Communications Co., Ltd., a subsidiary of our variable interest entity New Oriental China, and Kuxue Huisi Network Technology Co., Ltd, a subsidiary of our variable interest entity Beijing Xuncheng, are also qualified as “high and new technology enterprises.” Beijing Xuncheng, one of our variable interest entities, is also in the process of renewing its qualification of “high and new technology enterprises.” Once the renewal is completed, Beijing Xuncheng will be eligible for a favorable enterprise income tax rate of 15% starting January 1, 2020.

An enterprises that qualifies as a “software enterprise” is exempt from enterprise income tax for the two years beginning from such enterprise’s first profitable year and then is entitled to a reduced tax rate of 12.5% for the succeeding three years. Four of our wholly-owned subsidiaries in China, Beijing Jinghong, Beijing Zhiyuan Hangcheng and other two subsidiaries, are qualified as software enterprises. For those subsidiaries that are qualified as both “high and new technology enterprises” and “software enterprises,” they have elected to enjoy income tax exemption for the two years beginning from their first profitable year, then a reduced tax rate of 12.5% for the succeeding three years, and then a reduced tax rate of 15% so long as they continue to meet the qualification of “high and new technology enterprises.”

In addition, under the current regulatory regime, whether our schools are entitled to any preferential income tax treatment remains unclear, and practice varies across different cities in China. Pursuant to the Implementation Rules for the Law for Promoting Private Education (2004), private schools that do not require reasonable returns enjoy the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools requiring reasonable returns shall be separately formulated by the relevant authorities under the State Council. To date, no regulations have been promulgated by the relevant authorities with regard to the preferential income tax treatment applicable to private schools requiring reasonable

FINANCIAL INFORMATION

returns. As of May 31, 2020, 18 of our schools elected as schools not requiring reasonable returns, and 39 of our schools elected as schools requiring reasonable returns and the remaining schools were not classified or registered as companies. The Amended Private Education Law, which became effective on September 1, 2017, no longer uses the term “reasonable return.” Instead, under the Amended Private Education Law, sponsors of private schools may choose to establish non-profit or for-profit private schools at their own discretion, except that private schools in compulsory education area can only be registered as non-profit private schools. Pursuant to the Amended Private Education Law, non-profit private schools will be entitled to the same tax benefits as public schools while taxation policies for for-profit private schools are still unclear. Due to a lack of implementation rules, whether our schools can be entitled to any preferential income tax treatment remains unclear. In practice, tax treatments for private schools vary across different cities in China. For example, private schools in certain cities are subject to a 25% standard enterprise income tax, while in other cities, private schools are subject to a fixed amount of enterprise income tax each year as determined by the local tax authority in lieu of the 25% standard enterprise income tax or are not required to pay enterprise income tax at all. Among our schools in four major cities from which we derived a significant portion of our revenues in the fiscal year ended May 31, 2020, three schools are subject to the standard 25% enterprise income tax rate and one school was not required by the governing tax bureau to pay any EIT from its establishment through May 31, 2020.

Preferential tax treatments granted to our schools by local governmental authorities are subject to review and may be adjusted or revoked at any time. In addition, if the government regulations or authorities were to phase out preferential tax benefits currently granted to “high and new technology enterprises,” our wholly-owned subsidiaries and variable interest entities in China would be subject to the 25% uniform statutory tax rate. The discontinuation of any preferential tax treatments currently available to our schools, especially those schools in major cities, and to our wholly-owned subsidiaries and variable interest entities, will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations. See “Regulations — Regulations on Taxation” and “Risk Factors — Risks Related to Doing Business in China — The discontinuation of any preferential tax treatments currently available to us could materially and adversely affect our results of operations.”

Recent Acquisitions

In October 2017, we acquired the entire equity interest in Hangzhou Shengshen Technology Co., Ltd, a K-12 education group located in Zhejiang, for a total consideration of US\$11.0 million.

In September 2018, we acquired the entire equity interest in Suzhou Hongyi Education Investment Co., Ltd, a kindergarten group located in Suzhou, for a total consideration of US\$42.6 million.

In 2017, we invested an aggregate of US\$11.2 million in Asia Pacific Montessori Education Co., Ltd., or Asia Pacific, which engages in the pre-school education business in Beijing and Hangzhou through its subsidiaries, for 35% of its equity interest. In December 2018, we acquired the remaining 65% of equity interest of Asia Pacific, for a total consideration of US\$12.6 million. We currently hold the entire equity interest in Asia Pacific.

In January 2020, we acquired the entire equity interest in Nanjing Qicheng, a K-12 education group, located in Nanjing, for a total consideration of US\$1.2 million.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this document. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

(in thousands of US\$ except share and per share data)	For the Years Ended May 31,		
	2018	2019	2020
Net revenues:			
Educational programs and services	2,165,152	2,785,254	3,230,378
Books and other services	282,278	311,237	348,304
Total net revenues	2,447,430	3,096,491	3,578,682
Operating cost and expenses: ⁽¹⁾			
Cost of revenues	(1,065,740)	(1,376,269)	(1,588,899)
Selling and marketing	(324,249)	(384,287)	(445,259)
General and administrative	(794,482)	(1,034,028)	(1,145,521)
Total operating cost and expenses	(2,184,471)	(2,794,584)	(3,179,679)
Gain on disposal of a subsidiary	—	3,627	—
Operating income	262,959	305,534	399,003
Other income, net:			
Interest income	84,838	97,530	116,117
Interest expense	—	(1,615)	(4,627)
Realized gain from long-term investments	7,366	26,379	407
Impairment loss from long-term investments	(980)	(5,919)	(31,750)
Loss from fair value change of long-term investments	—	(104,636)	(18,451)
Miscellaneous income, net	2,841	(1,424)	27,137
Provision for income taxes:			
Current	(72,785)	(103,031)	(142,992)
Deferred	13,377	17,317	8,630
Provision for income taxes	(59,408)	(85,714)	(134,362)
(Loss) gain from equity method investments	(379)	(2,289)	1,385
Net income	297,237	227,846	354,859
Less: Net income (loss) attributable to noncontrolling interests	1,107	(10,219)	(58,474)
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders	296,130	238,065	413,333
Net income per common share attributable to shareholders of New Oriental Education & Technology Group Inc. ⁽²⁾			
- Basic	1.87	1.50	2.61
- Diluted	1.87	1.50	2.59

FINANCIAL INFORMATION

(in thousands of US\$ except share and per share data)	For the Years Ended May 31,		
	2018	2019	2020
Weighted average shares used in calculating basic net income per common share	158,168,794	158,293,890	158,429,576
Weighted average shares used in calculating diluted net income per common share	158,556,500	159,039,345	159,536,890
(in thousands of US\$ except share and per share data)	For the Three Months Ended August 31,		
	2019	2020	
	(unaudited)	(unaudited)	
Net revenues:			
Educational programs and services	996,532	935,587	
Books and other services	75,245	50,779	
Total net revenues	1,071,777	986,366	
Operating cost and expenses: ⁽¹⁾			
Cost of revenues	(440,229)	(464,866)	
Selling and marketing	(101,193)	(116,883)	
General and administrative	(284,159)	(254,312)	
Total operating cost and expenses	(825,581)	(836,061)	
Operating income	246,196	150,305	
Other income, net	8,671	62,818	
Provision for income taxes:			
Current	(52,670)	(43,584)	
Deferred	1,834	(15,538)	
Provision for income taxes	(50,836)	(59,122)	
Loss from equity method investments	(803)	(3,167)	
Net income	203,228	150,834	
Less: Net loss attributable to noncontrolling interests	(5,762)	(23,818)	
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders	208,990	174,652	
Net income per common share attributable to shareholders of New Oriental Education & Technology Group Inc. ⁽²⁾			
- Basic	1.32	1.10	
- Diluted	1.31	1.09	
Weighted average shares used in calculating basic net income per common share	158,246,454	158,930,841	
Weighted average shares used in calculating diluted net income per common share	159,667,569	159,769,635	

FINANCIAL INFORMATION

Notes:

(1) Share-based compensation expenses are included in our operating cost and expenses as follows:

	For the Years Ended May 31,			For the Three Months Ended August 31,	
				(unaudited)	
(in thousands of US\$)	2018	2019	2020	2019	2020
Cost of revenues	—	134	2,224	36	1,483
Selling and marketing	—	1,205	4,227	365	2,597
General and administrative	57,443	69,997	55,606	10,619	11,753
Total	<u>57,443</u>	<u>71,336</u>	<u>62,057</u>	<u>11,020</u>	<u>15,833</u>

(2) Each ADS represents one common share.

Three Months Ended August 31, 2020 Compared to Three Months Ended August 31, 2019

Net Revenues. Our total net revenues decreased by 8.0% from US\$1,071.8 million in the three months ended August 31, 2019 to US\$986.4 million in the three months ended August 31, 2020. This decrease was primarily due to the decreased revenues from both educational programs and services as well as from books and other services.

- Educational Programs and Services.** Net revenues from our educational programs and services decreased by 6.1% from US\$996.5 million in the three months ended August 31, 2019 to US\$935.6 million in the three months ended August 31, 2020. This decrease was primarily due to the decrease in revenues from K-12 AST, test preparation, and other courses from US\$949.7 million in the three months ended August 31, 2019 to US\$875.4 million in the three months ended August 31, 2020. The decrease in revenues from K-12 AST, test preparation, and other courses was mainly attributable to the decrease in revenues from test preparation and other courses from US\$254.4 million in the three months ended August 31, 2019 to US\$127.8 million in the three months ended August 31, 2020 due to the COVID-19 pandemic, partially offset by an increase in revenues from K-12 AST courses from US\$695.3 million in the three months ended August 31, 2019 to US\$747.6 million in the three months ended August 31, 2020. The increase in revenues from K-12 AST courses was mainly due to the increase in student enrollment in those courses. The slower growth rate of revenues from K-12 AST was mainly due to the impact of COVID-19, including delayed enrollment for summer and autumn classes and the shortening of summer holiday in many major cities by one to two weeks this year, as well as the delayed resumption of offline operation in certain cities. The number of student enrollments for our K-12 AST courses increased from approximately 2.3 million in the three months ended August 31, 2019 to approximately 2.8 million in the three months ended August 31, 2020. The number of student enrollments for our test preparation and other courses decreased from approximately 288 thousand in the three months ended August 31, 2019 to approximately 160

FINANCIAL INFORMATION

thousand in the three months ended August 31, 2020. The impact on K-12 AST courses was to a lesser extent when compared with test preparation and other courses. Test preparation and other courses had been affected by the continuous global impact of the pandemic as study and traveling abroad were restricted, while K-12 AST had experienced signs of recovery as the pandemic gradually fades in China.

- Books and Other Services. Net revenues from sales of books and other educational materials and services decreased by 32.5% from US\$75.2 million in the three months ended August 31, 2019 to US\$50.8 million in the three months ended August 31, 2020, primarily due to the decreased revenue from overseas consulting business and study tour in the three months ended August 31, 2020 due to the impact of COVID-19.

Operating Cost and Expenses. Our total operating cost and expenses increased by 1.3% from US\$825.6 million in the three months ended August 31, 2019 to US\$836.1 million in the three months ended August 31, 2020. This increase resulted from increases in our cost of revenues and selling and marketing expenses, partially offset by a decrease in general and administrative expenses. Our operating cost and expenses continue to increase as we continue to open new schools and learning centers and hire additional teachers. We track the number of teachers, schools and learning centers as a key indicator for our operating cost and expenses and manage our expenditures and budget accordingly. Our total numbers of schools and learning centers were 112 and 1,360, respectively, as of August 31, 2020, compared to 95 and 1,166, respectively, as of August 31, 2019. We employed approximately 35,300 and 42,400 teachers as of August 31, 2019 and 2020, respectively.

- Cost of Revenues. Our cost of revenues increased by 5.6% from US\$440.2 million in the three months ended August 31, 2019 to US\$464.9 million in the three months ended August 31, 2020. This increase was primarily due to increases in teachers' compensation and higher rental costs for the increased number of schools and learning centers in operation during the three months ended August 31, 2020. Teachers' compensation constituted over 60% of our cost of revenues in the three months ended August 31, 2019 and 2020, and rental costs constituted over 15% during the same periods of our cost of revenues.
- Selling and Marketing Expenses. Our selling and marketing expenses increased by 15.5% from US\$101.2 million in the three months ended August 31, 2019 to US\$116.9 million in the three months ended August 31, 2020. This increase was primarily due to addition of a number of customer service representatives and marketing staff with the aim of capturing the new market opportunity during the COVID-19 period, especially for new initiatives in K-12 tutoring on our pure online education platform, Koolearn. Market promotion expenses constituted over 35% of our selling and marketing expenses in the three months ended August 31, 2019 and 2020, and human resources expenses constituted over 35% during the same periods of our selling and marketing expenses.
- General and Administrative Expenses. Our general and administrative expenses decreased by 10.5% from US\$284.2 million in the three months ended August 31, 2019 to US\$254.3 million in the three months ended August 31, 2020. This decrease was primarily due to a decrease of US\$39.8 million in

FINANCIAL INFORMATION

general and administrative related human resources expenses and a decrease of US\$9.5 million in general operational expenses during the three months ended August 31, 2020 as we took various cost control measures during the three months ended August 31, 2020. Human resources expenses constituted over 45% of our general and administrative expenses in the three months ended August 31, 2019 and 2020, and administrative expenses constituted over 15% during the same periods of our general and administrative expenses.

Other Income, Net. Our other income, net increased from US\$8.7 million in the three months ended August 31, 2019 to US\$62.8 million in the three months ended August 31, 2020, which was primarily due to increase in interest income and certain VAT exemption due to the COVID-19.

Provision for Income Tax. Our income tax expense increased by 16.3% from US\$50.8 million in the three months ended August 31, 2019 to US\$59.1 million in the three months ended August 31, 2020. The increase was primarily due to an increase in valuation allowance for deferred tax assets in the three months ended August 31, 2020.

Net Income. As a result of the foregoing, our net income in the three months ended August 31, 2020 was US\$150.8 million, compared to US\$203.2 million in the three months ended August 31, 2019. Our net income in the three months ended August 31, 2020 included US\$23.8 million in net loss attributable to noncontrolling interests, which was primarily attributable to the interest of the noncontrolling shareholders in Koolearn.

Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019

Net Revenues. Our total net revenues increased by 15.6% from US\$3,096.5 million for the fiscal year ended May 31, 2019 to US\$3,578.7 million for the fiscal year ended May 31, 2020. This increase was due to the increased revenues from both educational programs and services as well as from books and other services. The number of student enrollment is the main driver for our revenue. We track the number of student enrollment as a key indicator for our business growth and manage our course offerings and sales strategies accordingly.

- **Educational Programs and Services.** Net revenues from our educational programs and services increased by 16.0% from US\$2,785.3 million for the fiscal year ended May 31, 2019 to US\$3,230.4 million for the fiscal year ended May 31, 2020. This increase was primarily due to the growth in revenues from K-12 AST, test preparation, and other courses from US\$2,605.8 million in the fiscal year ended May 31, 2019 to US\$3,040.7 million in the fiscal year ended May 31, 2020. The increase in revenues from K-12 AST, test preparation, and other courses was mainly attributable to the increase in revenues from K-12 AST courses from US\$1,968.4 million for the fiscal year ended May 31, 2019 to US\$2,474.5 million for the fiscal year ended May 31, 2020, partially offset by a decrease in revenues from test preparation and other courses from US\$637.4 million for the fiscal year ended May 31, 2019 to US\$566.2 million for the fiscal year ended May 31, 2020 due to the COVID-19 pandemic. The increase in revenues from K-12 AST courses was mainly due to the increase in student enrollment in those courses, though at a slightly slower pace due to the impact of COVID-19. The number of student enrollments for our K-12 AST courses increased from

FINANCIAL INFORMATION

approximately 7.5 million in the fiscal year ended May 31, 2019 to approximately 9.7 million in the fiscal year ended May 31, 2020. The number of student enrollments for our test preparation and other courses decreased from approximately 866 thousand in the fiscal year ended May 31, 2019 to approximately 851 thousand in the fiscal year ended May 31, 2020, due to the impact of COVID-19. The impact on K-12 AST courses was to a lesser extent when compared with test preparation and other courses because (i) the impact on student enrollment was subject to a delaying effect due to advance collection of tuition, and (ii) the impact on revenues was limited to the fourth quarter of the fiscal year ended May 31, 2020, given the offsetting effect of enrollment growth in the first three quarters.

- Books and Other Services. Net revenues from sales of books and other educational materials and services increased by 11.9% from US\$311.2 million in the fiscal year ended May 31, 2019 to US\$348.3 million in the fiscal year ended May 31, 2020, primarily due to the increased revenue of US\$30.1 million from overseas consulting business in the fiscal year ended May 31, 2020.

Operating Cost and Expenses. Our total operating cost and expenses increased by 13.8% from US\$2,794.6 million in the fiscal year ended May 31, 2019 to US\$3,179.7 million in the fiscal year ended May 31, 2020. This increase resulted from increases in each of our cost of revenues, selling and marketing expenses and general and administrative expenses. Our operating cost and expenses continue to increase as we continue to open new schools and learning centers and hire additional teachers. We track the number of teachers, schools and learning centers as a key indicator for our operating cost and expenses and manage our expenditures and budget accordingly. Our total numbers of schools and learning centers were 104 and 1,361, respectively, as of May 31, 2020, compared to 95 and 1,159, respectively, as of May 31, 2019. We employed approximately 33,900 and 41,400 teachers as of May 31, 2019 and 2020, respectively.

- Cost of Revenues. Our cost of revenues increased by 15.4% from US\$1,376.3 million in the fiscal year ended May 31, 2019 to US\$1,588.9 million in the fiscal year ended May 31, 2020. This increase was in line with the increase in revenues and primarily due to an increase in teachers' compensation for more aggregated teaching hours and higher rental costs for the increased number of schools and learning centers in operation during the fiscal year ended May 31, 2020. Teachers' compensation constituted over 55% of our cost of revenues in the fiscal years ended May 31, 2019 and 2020, and rental costs constituted over 20% during the same periods of our cost of revenues.
- Selling and Marketing Expenses. Our selling and marketing expenses increased by 15.9% from US\$384.3 million in the fiscal year ended May 31, 2019 to US\$445.3 million in the fiscal year ended May 31, 2020. This increase was primarily due to the increase in online marketing efforts and the addition of a number of customer service representatives and marketing staff with the aim of capturing the new market opportunity during COVID-19 pandemic, especially for new initiatives in our pure online education platform, Koolearn.com. Market promotion expenses constituted over 40% of our selling and marketing expenses in the fiscal years ended May 31, 2019 and 2020, and human resources expenses constituted over 35% during the same periods of our selling and marketing expenses.

FINANCIAL INFORMATION

- General and Administrative Expenses. Our general and administrative expenses increased by 10.8% from US\$1,034.0 million in the fiscal year ended May 31, 2019 to US\$1,145.5 million in the fiscal year ended May 31, 2020. This increase was primarily due to an increase of US\$34.5 million in general and administrative related human resources expenses and an increase of US\$1.5 million in general operational expenses during the fiscal year ended May 31, 2020. Human resources expenses constituted over 55% of our general and administrative expenses in the fiscal years ended May 31, 2019 and 2020, and administrative expenses constituted over 15% during the same periods of our general and administrative expenses.

Other Income, Net. Our other income, net increased from US\$10.3 million in the fiscal year ended May 31, 2019 to US\$88.8 million in the fiscal year ended May 31, 2020, which was primarily due to higher loss from fair value change of long-term investments in the fiscal year ended May 31, 2019 and certain VAT exemption due to the COVID-19 in the fiscal year ended May 31, 2020.

Provision for Income Tax. Our income tax expense increased by 56.8% from US\$85.7 million in the fiscal year ended May 31, 2019 to US\$134.4 million in the fiscal year ended May 31, 2020. The increase was primarily due to an increase in valuation allowance for deferred tax assets in the fiscal year ended May 31, 2020.

Net Income. As a result of the foregoing, our net income for the fiscal year ended May 31, 2020 was US\$354.9 million, compared to US\$227.8 million for the fiscal year ended May 31, 2019. Our net income for the fiscal year ended May 31, 2020 included US\$58.5 million in net loss attributable to noncontrolling interests, which was primarily attributable to the interest of the noncontrolling shareholders in Koolearn. The loss incurred by Koolearn in the fiscal year ended May 31, 2020 was primarily attributable to an increase in Koolearn's selling and marketing expenses, research and development expenses, and administrative expenses, which were incurred as a result of Koolearn's continued business expansion, in particular personnel cost to support its growing operations.

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

Net Revenues. Our total net revenues increased by 26.5% from US\$2,447.4 million for the fiscal year ended May 31, 2018 to US\$3,096.5 million for the fiscal year ended May 31, 2019. This increase was due to the increased revenues from both educational programs and services as well as from books and other services.

- Educational Programs and Services. Net revenues from our educational programs and services increased by 28.6% from US\$2,165.2 million for the fiscal year ended May 31, 2018 to US\$2,785.3 million for the fiscal year ended May 31, 2019. This increase was primarily due to the growth in revenues from K-12 AST, test preparation, and other courses from US\$2,023.0 million in the fiscal year ended May 31, 2018 to US\$2,605.8 million in the fiscal year ended May 31, 2019. Revenues from K-12 AST courses increased from US\$1,432.3 million for the fiscal year ended May 31, 2018 to US\$1,968.4 million for the fiscal year ended May 31, 2019, and revenues from test preparation and other courses increased from US\$590.7 million for the fiscal year ended May 31, 2018 to US\$637.4 million for the fiscal year ended May 31, 2019. The increase in revenues from

FINANCIAL INFORMATION

K-12 AST, test preparation, and other courses was mainly attributable to the increase in the number of student enrollments from approximately 6.3 million in the fiscal year ended May 31, 2018 to approximately 8.4 million in the fiscal year ended May 31, 2019, and in particular, the increased number of student enrollments in our K-12 AST courses from approximately 5.5 million in the fiscal year ended May 31, 2018 to approximately 7.5 million in the fiscal year ended May 31, 2019. The number of student enrollments for our test preparation and other courses remained stable at approximately 0.9 million in the fiscal years ended May 31, 2018 and 2019. The significant increase in the number of student enrollments is primarily due to the division of the spring semester course into two courses since November 2018, in order to comply with the then latest regulatory requirements, which provides that after-school tutoring institutions can only collect course fees for courses that are three months or shorter in duration. Students enroll into and pay course fees for each course separately and can choose not to enroll into both courses. Under this method, student enrollments in the spring semester are recorded separately for each part and the student enrollments for each part fall into separate quarters.

- Books and Other Services. Net revenues from sales of books and other educational materials and services increased by 10.3% from US\$282.3 million in the fiscal year ended May 31, 2018 to US\$311.2 million in the fiscal year ended May 31, 2019, primarily due to the increased revenue of US\$26.8 million from the overseas consulting business in the fiscal year ended May 31, 2019.

Operating Cost and Expenses. Our total operating cost and expenses increased by 27.9% from US\$2,184.5 million in the fiscal year ended May 31, 2018 to US\$2,794.6 million in the fiscal year ended May 31, 2019. This increase resulted from increases in our cost of revenues, selling and marketing expenses and general and administrative expenses. Our total numbers of schools and learning centers were 95 and 1,159, respectively, as of May 31, 2019, compared to 87 and 994, respectively, as of May 31, 2018.

- Cost of Revenues. Our cost of revenues increased by 29.1% from US\$1,065.7 million in the fiscal year ended May 31, 2018 to US\$1,376.3 million in the fiscal year ended May 31, 2019. This increase was primarily due to an increase in teaching fees and performance-linked bonuses paid to our teachers during the fiscal year ended May 31, 2019. Teachers' compensation constituted over 55% of our cost of revenues in the fiscal years ended May 31, 2018 and 2019, and rental costs constituted over 20% during the same periods of our cost of revenues.
- Selling and Marketing Expenses. Our selling and marketing expenses increased by 18.5% from US\$324.2 million in the fiscal year ended May 31, 2018 to US\$384.3 million in the fiscal year ended May 31, 2019. This increase was primarily due to the addition of over 3,800 new sales and marketing personnel during the fiscal year ended May 31, 2019. Market promotion expenses constituted over 40% of our selling and marketing expenses in the fiscal years ended May 31, 2018 and 2019, and human resources expenses constituted over 35% during the same periods of our selling and marketing expenses.
- General and Administrative Expenses. Our general and administrative expenses increased by 30.1% from US\$794.5 million in the fiscal year ended May 31, 2018 to US\$1,034.0 million in the

FINANCIAL INFORMATION

fiscal year ended May 31, 2019. This increase was primarily due to an increase of US\$151.0 million in general and administrative related human resources expenses and an increase of US\$22.2 million in general operational expenses during the fiscal year ended May 31, 2019. Human resources expenses constituted over 55% of our general and administrative expenses in the fiscal years ended May 31, 2018 and 2019 and administrative expenses constituted over 15% during the same periods of our general and administrative expenses.

Other Income, Net. Our other income, net decreased from US\$94.1 million in the fiscal year ended May 31, 2018 to US\$10.3 million in the fiscal year ended May 31, 2019, which was primarily due to higher loss from fair value change of long-term investments in the fiscal year ended May 31, 2019.

Provision for Income Tax. Our income tax expense increased by 44.3% from US\$59.4 million in the fiscal year ended May 31, 2018 to US\$85.7 million in the fiscal year ended May 31, 2019. The increase was primarily due to a higher income tax rate incurred in the fiscal year ended May 31, 2019, which was mainly attributable to the effect of not deductible expenses for tax purposes and, to a lesser extent, tax effect of exempt entities. The effect of not deductible expenses for tax purposes was mainly due to higher loss from fair value change of long-term investments and the tax effect of exempt entities was mainly due to terms, phase-outs and availability of tax exemptions.

Net Income. As a result of the foregoing, our net income for the fiscal year ended May 31, 2019 was US\$227.8 million, compared to US\$297.2 million for the fiscal year ended May 31, 2018. The decrease was primarily due to an increase in loss from fair value change of long-term investments in the fiscal year ended May 31, 2019 by US\$104.6 million, US\$96.6 million of which was from our investment in Sunlands, a company engaged in online education specific to vocational qualification training. Our net income for the fiscal year ended May 31, 2019 included US\$10.2 million in net loss attributable to noncontrolling interests, which was primarily attributable to the interest of the noncontrolling shareholders in Koolearn. The loss incurred by Koolearn in the fiscal year ended May 31, 2019 was primarily attributable to an increase in Koolearn's share-based compensation expenses due to the adoption of a pre-IPO share option scheme on July 13, 2018 and grants of options made thereunder between the scheme's date of adoption and Koolearn's listing on the Hong Kong Stock Exchange on March 28, 2019, and increased selling and marketing expenses, research and development expenses, as well as administrative expenses in relation to Koolearn's expansion plans and the launch of new products.

Discussion of Segment Operations

For the years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, we identified seven operating segments, including (i) K-12 AST, test preparation, and other courses (which we formerly referred to as language training and test preparation courses), (ii) primary and secondary school education, (iii) online education, (iv) content development and distribution, (v) pre-school education, (vi) overseas study consulting services, and (vii) study tours. In the year ended May 31, 2020, we identified K-12 AST, test preparation, and other courses as a reportable segment. Primary and secondary school education, online education, content development and distribution, pre-school education, overseas study consulting services and study tours operating segments were aggregated as others because individually they do not exceed the 10% quantitative threshold.

FINANCIAL INFORMATION

Net revenues from our K-12 AST, test preparation, and other courses accounted for 82.7%, 84.2%, 85.0% and 88.7%, respectively, of our total net revenues in the fiscal years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020. We recognize revenues from course fees collected for enrollment in our K-12 AST, test preparation, and other courses proportionally as we deliver the instruction over the period of the course.

Cost of revenues for our K-12 AST, test preparation, and other courses primarily consists of teaching fees and performance-linked bonuses paid to our teachers, rental payments for our schools and learning centers and, to a lesser degree, depreciation and amortization of property and equipment used in the provision of educational services.

Selling and marketing expenses for our K-12 AST, test preparation, and other courses primarily consist of marketing and promotion expenses and other costs related to our selling and marketing activities.

General and administrative expenses for our K-12 AST, test preparation, and other courses primarily consist of compensation and benefits of administrative staff of our K-12 AST, test preparation, and other courses segment, compensation and benefits, rental and utilities payments relating to office and administrative functions of our K-12 AST, test preparation, and other courses segment, depreciation and amortization of property and equipment used in the general and administrative activities of our K-12 AST, test preparation, and other courses segment and, to a lesser extent, costs to develop our curriculum.

FINANCIAL INFORMATION

The following table lists our net revenues and operating cost and expenses of K-12 AST, test preparation, and other courses reportable segment, excluding the unallocated corporate expenses, for the periods indicated.

(in thousands of US\$)	For the Year Ended May 31,			For the Three Months Ended August 31,	
	2018	2019	2020	2019	2020
				(unaudited)	(unaudited)
Net revenues of the reportable segment:					
K-12 AST, test preparation, and other courses	2,022,978	2,605,829	3,040,741	949,730	875,395
Total net revenues of the reportable segment	<u>2,022,978</u>	<u>2,605,829</u>	<u>3,040,741</u>	<u>949,730</u>	<u>875,395</u>
Total net revenues of our company	<u>2,447,430</u>	<u>3,096,491</u>	<u>3,578,682</u>	<u>1,071,777</u>	<u>986,366</u>
Operating cost and expenses of the reportable segment:					
Cost of revenues:					
K-12 AST, test preparation, and other courses	(869,012)	(1,128,355)	(1,304,239)	(365,627)	(387,404)
Selling and marketing:					
K-12 AST, test preparation, and other courses	(193,851)	(212,170)	(218,739)	(57,325)	(62,606)
General and administrative:					
K-12 AST, test preparation, and other courses	(504,985)	(675,315)	(729,125)	(189,281)	(156,557)
Total operating cost and expenses of the reportable segment	<u>(1,567,848)</u>	<u>(2,015,840)</u>	<u>(2,252,103)</u>	<u>(612,233)</u>	<u>(606,567)</u>
Total operating cost and expenses of our company	<u>(2,184,471)</u>	<u>(2,794,584)</u>	<u>(3,179,679)</u>	<u>(825,581)</u>	<u>(836,061)</u>

Three Months Ended August 31, 2020 Compared to Three Months Ended August 31, 2019

Net Revenues of K-12 AST, test preparation, and other courses

Net revenues from our K-12 AST, test preparation, and other courses decreased by 7.8% from US\$949.7 million in the three months ended August 31, 2019 to US\$875.4 million in the three months ended August 31, 2020, primarily due to the factors discussed in “— Results of Operations — Three Months Ended August 31, 2020 Compared to Three Months Ended August 31, 2019 — Net Revenues — Educational Programs and Services.”

Operating Cost and Expenses of K-12 AST, test preparation, and other courses

- Cost of Revenues. Cost of revenues for our K-12 AST, test preparation, and other courses increased by 6.0% from US\$365.6 million in the three months ended August 31, 2019 to US\$387.4 million in the three months ended August 31, 2020, primarily due to the factors discussed in “— Results of Operations — Three Months Ended August 31, 2020 Compared to

FINANCIAL INFORMATION

Three Months Ended August 31, 2019 — Operating Costs and Expenses — Cost of Revenues.” Gross profit for our K-12 AST, test preparation, and other courses was US\$488.0 million in the three months ended August 31, 2020, compared with US\$584.1 million in the three months ended August 31, 2019. Gross profit margin was 55.7% in the three months ended August 31, 2020, compared with 61.5% in the three months ended August 31, 2019.

- Selling and Marketing Expenses. Selling and marketing expenses for our K-12 AST, test preparation, and other courses increased by 9.2% from US\$57.3 million in the three months ended August 31, 2019 to US\$62.6 million in the three months ended August 31, 2020, primarily due to the factors discussed in “— Results of Operations — Three Months Ended August 31, 2020 Compared to Three Months Ended August 31, 2019 — Operating Costs and Expenses — Selling and Marketing Expenses.”
- General and Administrative Expenses. General and administrative expenses for our K-12 AST, test preparation, and other courses decreased by 17.3% from US\$189.3 million in the three months ended August 31, 2019 to US\$156.6 million in the three months ended August 31, 2020, primarily due to the factors discussed in “— Results of Operations — Three Months Ended August 31, 2020 Compared to Three Months Ended August 31, 2019 — Operating Costs and Expenses — General and Administrative Expenses.”

Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019

Net Revenues of K-12 AST, test preparation, and other courses

Net revenues from our K-12 AST, test preparation, and other courses increased by 16.7% from US\$2,605.8 million for the fiscal year ended May 31, 2019 to US\$3,040.7 million for the fiscal year ended May 31, 2020, primarily due to the factors discussed in “— Results of Operations — Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019 — Net Revenues — Educational Programs and Services.”

Operating Cost and Expenses of K-12 AST, test preparation, and other courses

- Cost of Revenues. Cost of revenues for our K-12 AST, test preparation, and other courses increased by 15.6% from US\$1,128.4 million for the fiscal year ended May 31, 2019 to US\$1,304.2 million for the fiscal year ended May 31, 2020, primarily due to the factors discussed in “— Results of Operations — Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019 — Operating Costs and Expenses — Cost of Revenues.” Gross profit for our K-12 AST, test preparation, and other courses was US\$1,736.5 million for the fiscal year ended May 31, 2020, compared with US\$1,477.5 million for the fiscal year ended May 31, 2019. Gross profit margin was 57.1% for the fiscal year ended May 31, 2020, compared with 56.7% for the fiscal year ended May 31, 2019.
- Selling and Marketing Expenses. Selling and marketing expenses for our K-12 AST, test preparation, and other courses increased by 3.1% from US\$212.2 million for the fiscal year ended

FINANCIAL INFORMATION

May 31, 2019 to US\$218.7 million for the fiscal year ended May 31, 2020, primarily due to the factors discussed in “— Results of Operations — Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019 — Operating Costs and Expenses — Selling and Marketing Expenses.”

- General and Administrative Expenses. General and administrative expenses for our K-12 AST, test preparation, and other courses increased by 8.0% from US\$675.3 million for the fiscal year ended May 31, 2019 to US\$729.1 million for the fiscal year ended May 31, 2020, primarily due to the factors discussed in “— Results of Operations — Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019 — Operating Costs and Expenses — General and Administrative Expenses.”

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

Net Revenues of K-12 AST, test preparation, and other courses

Net revenues from our K-12 AST, test preparation, and other courses increased by 28.8% from US\$2,023.0 million for the fiscal year ended May 31, 2018 to US\$2,605.8 million for the fiscal year ended May 31, 2019, primarily due to the factors discussed in “— Results of Operations — Fiscal Year Ended May 31, 2019 Compared to Fiscal Year Ended May 31, 2018 — Net Revenues — Educational Programs and Services.”

Operating Cost and Expenses of K-12 AST, test preparation, and other courses

- Cost of Revenues. Cost of revenues for our K-12 AST, test preparation, and other courses increased by 29.8% from US\$869.0 million for the fiscal year ended May 31, 2018 to US\$1,128.4 million for the fiscal year ended May 31, 2019, primarily due to the factors discussed in “— Results of Operations — Fiscal Year Ended May 31, 2019 Compared to Fiscal Year Ended May 31, 2018 — Operating Costs and Expenses — Cost of Revenues.” Gross profit for our K-12 AST, test preparation, and other courses was US\$1,477.5 million for the fiscal year ended May 31, 2019, compared with US\$1,154.0 million for the fiscal year ended May 31, 2018. Gross profit margin was 56.7% for the fiscal year ended May 31, 2019, compared with 57.0% for the fiscal year ended May 31, 2018.
- Selling and Marketing Expenses. Selling and marketing expenses for our K-12 AST, test preparation, and other courses increased by 9.5% from US\$193.9 million for the fiscal year ended May 31, 2018 to US\$212.2 million for the fiscal year ended May 31, 2019, primarily due to the factors discussed in “— Results of Operations — Fiscal Year Ended May 31, 2019 Compared to Fiscal Year Ended May 31, 2018 — Operating Costs and Expenses — Selling and Marketing Expenses.”
- General and Administrative Expenses. General and administrative expenses for our K-12 AST, test preparation, and other courses increased by 33.7% from US\$505.0 million for the fiscal year

FINANCIAL INFORMATION

ended May 31, 2018 to US\$675.3 million for the fiscal year ended May 31, 2019, primarily due to the factors discussed in “— Results of Operations — Fiscal Year Ended May 31, 2019 Compared to Fiscal Year Ended May 31, 2018 — Operating Costs and Expenses — General and Administrative Expenses.”

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in liquid investments with original maturities of three months or less and term deposits with maturities of greater than three months and less than a year. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may be lower than expected due to changes in market interest rates. A hypothetical one percentage point decrease in interest rates would have resulted in a decrease of approximately US\$33.6 million in our interest income for the year ended May 31, 2020.

Foreign Exchange Risk

All of our revenues and most of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent denominated in U.S. dollars. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or used any other derivative financial instruments.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People’s Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollar-denominated financial assets into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. A hypothetical 10% appreciation of the RMB against the U.S. dollar would have resulted in a decrease of RMB54.3 million in the value of our U.S. dollar denominated financial assets as of May 31, 2020. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our Shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

Inflation

According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index in China for May 2018, 2019 and 2020 were increases of 1.8%, 2.5% and 2.4%,

FINANCIAL INFORMATION

respectively. Inflation has had some impact on our operations in recent years, in the form of higher salaries for our teachers and other staff and higher rental payments for certain of the properties we lease. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments in RMB, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China. We can provide no assurance that we will not be affected in the future should rates of inflation increase again in China.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make Judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the end of each fiscal period and the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these Judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making Judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the Judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policy involves the most significant Judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

On June 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 June 1, 2018. Results for the years ended May 31, 2019 and 2020 and the three months ended August 31, 2020 are presented under Topic 606, while revenues for the year ended May 31, 2018 are not adjusted and continue to be reported under ASC Topic 605, Revenue Recognition.

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.

FINANCIAL INFORMATION

The primary sources of our company's revenues are as follows:

Educational programs and services

The educational programs and services consist of K-12 AST, test preparation, and other courses, pre-school education, primary and secondary school education and online education. Each contract of educational programs and services is accounted for as a single performance obligation which is satisfied proportionately over the service period. Tuition is generally collected in advance and is initially recorded as deferred revenue. Refunds are provided to students if they decide within the trial period that they no longer want to take the course. After the trial period, if a student withdraws from a class, usually only those unearned portion of the fee is available to be returned. Historically, we haven't had material refund. We recognize the revenue, net of VAT and surcharges from the educational programs and services proportionately when the services are delivered. US\$3,040.7 million and US\$875.4 million of revenues of educational programs and services for the year ended May 31, 2020 and the three months ended August 31, 2020, respectively, were derived from K12 AST, test preparation and other courses, and the remaining amount was derived from other segments.

Books and other services

Other service revenues are primarily derived from consulting services to students regarding overseas studies and study tours. Revenues are recognized when promised services are delivered to the customers in an amount of consideration to which we expect to be entitled to in exchange for those services. Each contract includes certain milestones and each of the milestones is considered a single performance obligation which is satisfied at the point of time when the related milestone is reached. Upon the adoption of Topic 606, we estimate the variable consideration to be earned and recognize revenues related to each milestone when the related milestone is achieved. Under the legacy revenue recognition standard, such revenues were deferred and recognized when student admission is reasonably assured. Our company sells books or other educational materials developed or licensed by our own book stores or websites or through third party distributors. Revenues from sales of books and other educational materials is recognized when control of the promised goods is transferred to the customers, in an amount that reflects the consideration we expects to be entitled to in exchange for the goods. All revenues of books and other services were derived from other segments. Our company provides books and other educational materials that are required for our courses and does not separately charge students for these items.

Our contract assets consist of accounts receivable and our contract liabilities mainly consist of prepayments from customers (deferred revenue).

Deferred revenues at the beginning of the years ended May 31, 2019 and 2020, amounting to US\$1,270.2 million and US\$1,301.1 million, were recognized as revenues during the years ended May 31, 2019 and 2020, respectively, representing 41.0% and 36.4% of the total net revenues. The percentages are calculated as ratios of the deferred revenue as of May 31, 2018 and 2019 over the total net revenues recognized in the years ended May 31, 2019 and 2020, respectively. Deferred revenues as of May 31, 2020, amounting to US\$1,324.4 million, are expected to be realized in the following year. The difference between the opening and closing

FINANCIAL INFORMATION

balances of the Group's deferred revenue primarily results from the timing difference between the Group's satisfaction of its performance obligation and the customer's payment pattern.

Refund liability mainly related to the estimated refunds that are expected to be provided to students if they decide they no longer want to take the course. Refund liability estimates are based on historical refund ratio on a portfolio basis using the expected value method.

Consolidation of Variable Interest Entity

PRC laws and regulations currently require any foreign entity that invests in the education business in China to be an educational institution with relevant experience in providing educational services outside China. Our offshore holding companies are not educational institutions and do not provide educational services outside China. To comply with the PRC laws and regulations, we conduct substantially all of our business through New Oriental China and its subsidiaries and schools. We have, through our wholly-owned subsidiaries in the PRC, entered into contractual arrangements with New Oriental China, its schools and subsidiaries, and their shareholders such that New Oriental China and its schools and subsidiaries (collectively the "VIEs") are considered variable interest entities for which we are considered their primary beneficiary. We believe we have substantive kick-out rights per the terms of the option agreement, which gives us the power to control the shareholder of New Oriental China. More specifically, we believe that the terms of the exclusive option agreement are currently exercisable and legally enforceable under PRC laws and regulations. We also believe that the minimum amount of consideration permitted by the applicable PRC law to exercise the option does not represent a financial barrier or disincentive for us to exercise our rights under the exclusive option agreement. A simple majority vote of our board of directors is required to pass a resolution to exercise our rights under the exclusive option agreement, for which consent of the shareholder of New Oriental China is not required. Therefore, we believe this gives us the power to direct the activities that most significantly impact the VIEs' economic performance. We believe that our ability to exercise effective control, together with the service agreements and the equity pledge agreements, give us the rights to receive substantially all of the economic benefits from the VIEs in consideration for the services provided by our wholly-owned subsidiaries in China. Accordingly, as the primary beneficiary of the VIEs and in accordance with U.S. GAAP, we consolidate their financial results and assets and liabilities in our consolidated financial statements.

On May 10, 2018, Dexin Dongfang, a wholly-owned PRC subsidiary of Koolearn, our controlled subsidiary, entered into contractual arrangements with Beijing Xuncheng, its subsidiaries, and its shareholders such that Beijing Xuncheng and its subsidiaries (collectively the "Xuncheng VIEs") are considered variable interest entities for which Koolearn is considered as their primary beneficiary. We believe Koolearn has substantive kick-out rights per the terms of the exclusive option agreement, which gives Koolearn the power to control the shareholders of Beijing Xuncheng. More specifically, we believe that the terms of the exclusive option agreement are currently exercisable and legally enforceable under PRC laws and regulations. We also believe that the minimum amount of consideration permitted by the applicable PRC law to exercise the option does not represent a financial barrier or disincentive for Koolearn to exercise its rights under the exclusive option agreement. A simple majority vote of Koolearn's board of directors is required to pass a resolution to exercise its rights under the exclusive option agreement, for which consent of the shareholders of Beijing Xuncheng is not

FINANCIAL INFORMATION

required. Therefore, we believe this gives Koolearn the power to direct the activities that most significantly impact the Xuncheng VIEs' economic performance. We believe that Koolearn's ability to exercise effective control, together with the exclusive management consultancy and business cooperation agreement and the equity pledge agreement, give Koolearn the rights to receive substantially all of the economic benefits from the Xuncheng VIEs in consideration for the services provided by Koolearn's wholly-owned subsidiaries in China. Accordingly, as the primary beneficiary of the Xuncheng VIEs and in accordance with U.S. GAAP, we consolidate their financial results and assets and liabilities in our consolidated financial statements.

On October 10, 2019, Dexin Dongfang and Zhuhai Chongsheng Heli Network Technology Co., Ltd. or Zhuhai Chongsheng, a wholly-owned PRC subsidiary of Koolearn entered into a supplemental agreement with Beijing Xuncheng and its subsidiaries and all of its shareholders. Pursuant to the supplemental agreement, Zhuhai Chongsheng joined as a party to the contractual agreements between Dexin Dongfang, Beijing Xuncheng and its subsidiaries and shareholders, and assumed the same rights and share the same obligations as Dexin Dongfang under the contractual agreements.

On October 10, 2019, Beijing Dongfang Youbo Network Technology Co., Ltd., a subsidiary of Beijing Xuncheng, executed a letter of acceptance whereby it assumed the same rights and obligations as Beijing Xuncheng's subsidiary under the exclusive management consultancy and business cooperation agreement.

As advised by Tian Yuan Law Firm, our PRC Legal Adviser, our corporate structure in China does not violate any existing PRC laws and regulations. However, our PRC Legal Adviser has also advised us that as there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, and 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 government authorities may have broad discretion in interpreting these laws and regulations. See "Risk factors — Risks Related to Our Corporate Structure — If the PRC government finds that the agreements that establish the structure for operating some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations" and "— Risks Related to Our Corporate Structure — We rely on contractual arrangements for our operations in China, which may not be as effective in providing operational control as direct ownership," "— Risks Related to Our Corporate Structure — Our ability to enforce the equity pledge agreements between us and the shareholders of our variable interest entities may be subject to limitations based on PRC laws and regulations" and "— Risks Related to Our Corporate Structure — The controlling shareholder of Century Friendship, which is the sole shareholder of New Oriental China, may have potential conflicts of interest with us, and if any such conflicts of interest are not resolved in our favor, our business may be materially and adversely affected."

We are a holding company with no material operations of our own. We conduct substantially all of our education business in China through contractual arrangements with the VIEs. See "History — Contractual Arrangements — Contractual Arrangements with New Oriental China" and "— Contractual Arrangements — Contractual Arrangements with Beijing Xuncheng" for a summary of these contractual arrangements. In the

FINANCIAL INFORMATION

fiscal years ended May 31, 2018, 2019, and 2020 and the three months ended August 31, 2020, the VIEs contributed in aggregate 98.8%, 98.7%, 96.5% and 99.9%, respectively, of our total net revenues. As of the years ended May 31, 2018, 2019 and 2020 and August 31, 2020, the VIEs accounted for an aggregate of 71.2%, 67.5%, 74.0% and 73.3%, respectively, of the consolidated total assets, and 95.8%, 90.5%, 93.9% and 90.4%, respectively, of the consolidated total liabilities. The assets not associated with the VIEs primarily consist of cash, investments and commercial property.

Equity securities

On June 1, 2018, we adopted ASU 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. We adopted this ASU using a modified retrospective method and reclassified unrealized losses of US\$97.9 million, net of tax on investment securities which were previously accounted for as available-for-sales investments, from accumulated other comprehensive losses to the opening balance of retained earnings. The adjustment related to the fair value measurement of equity securities which were previously classified as available for sales investments.

Equity securities with readily determinable fair values

Prior to the adoption of ASU 2016-01, equity securities that have readily determinable fair values and were not accounted for using the equity method or those that result in consolidation of the investee were classified as available-for-sale investments, and were carried at the fair value with Unrealized gains and losses recorded in accumulated other comprehensive income (loss) as a component of shareholders' equity. Upon the adoption of ASU 2016-01, we carry these equity securities at fair value with Unrealized gains and losses recorded in the consolidated income statements.

Equity securities without readily determinable fair values

Starting on June 1, 2018, 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 income statements.

We review our equity securities without readily determinable fair value for impairment 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 ASC Topic 820, Fair Value Measurements and Disclosures ("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 the fair value in the consolidated statements of operations.

Equity Method Investments

Investee companies over which we have the ability to exercise significant influence, but do not have a controlling interest through investment in common shares or in-substance common shares, are accounted for

FINANCIAL INFORMATION

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. For certain investments, where we hold more than 50% equity interest, we may only have significant influence but not control over the investees. For certain investments, where we hold less than a 20% equity or voting interest, we may also have significant influence. Equity method is also used to account for these investments.

Under the equity method, we initially record investments at cost and subsequently recognize proportionate share of each equity investee's net income or loss after the date of investment into earnings and accordingly adjust the carrying amount of the investment.

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 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, the estimation of the useful life over which cash flows will occur, and the determination of the weighted average cost of capital. We did not record any impairment losses on our equity method investment during the years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, respectively.

Available-for-sale Investments

For investments in investees' preferred shares 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. Realized gains or losses, and provision for decline in value judged to be other than temporary, if any, are recognized in the consolidated statements of operations.

We review our available-for-sale 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 available-for-sale 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 US\$980 thousand, US\$5.9 million, US\$31.8 million and nil impairment losses from long-term investments during the years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, respectively.

FINANCIAL INFORMATION

Fair value of investments as level 3 measurements

Our Company measured the fair value for redeemable preferred shares that do not have a quoted market rate based on the market approach or income approach when no recent transactions are available. The market approach takes into consideration a number of factors including market multiple and discount rates from traded companies in the industry and requires us to make certain assumptions and estimates regarding industry factors. The income approach takes into consideration a number of factors including our management projection of discounted future cash flow of the investee as well as an appropriate discount rate. We have classified those as level 3 measurements. Changes in any unobservable inputs may have a significant impact on the fair values.

In relation to the valuation of our investments using level 3 fair value measurements, our Directors adopted the following procedures: (i) selected qualified persons with adequate knowledge and conducted impairment testing and valuation on the investments in privately held companies without readily determinable fair value; (ii) engaged independent competent third-party valuer to appraise the fair value of certain investments that are either significant or with impairment indicator; (iii) reviewed and agreed on the valuation approaches adopted and key assumptions used, based on our knowledge and understanding of the industrial data statistics and development, and the commercial strategies of the investee business; and (iv) approved the results if the procedures were deemed satisfactory. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the Group is fair and reasonable, and the level 3 fair value measurements in the financial statements of our Group are properly prepared.

Details of the fair value measurement of financial assets categorized within level 3, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, and reconciliation of level 3 measurements are disclosed in Note 11 to the Historical Financial Information of the Group for the Track Record Period as set out in the Accountants' Report issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants in Appendix I. The Reporting Accountants' opinion on the Historical Financial Information of the Group for the Track Record Period as a whole is set out on I-2 of Appendix I.

In relation to the fair value assessment of the financial liabilities and assets requiring level 3 measurements under the fair value classification, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, reviewing relevant disclosure in the Accountant's Report and understanding, through the Company and the Reporting Accountants, the valuation work performed, including the valuation methodology and the key basis and assumptions for the valuation of the financial liabilities and assets. Having considered the work done by the Company's management, the Directors and the Reporting Accountants, and the relevant due diligence conducted by the Joint Sponsors, nothing material has come to the Joint Sponsors' attention that indicates that the Directors have not undertaken independent and sufficient investigation and due diligence, or that the Directors' reliance on the work products of the independent valuer is unreasonable or excessive.

FINANCIAL INFORMATION

Goodwill and intangible asset with indefinite useful life

Goodwill of the Group represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Group's goodwill as of May 31, 2018, 2019 and 2020 relates to its acquisition of certain kindergartens and schools. In accordance with Accounting Standard Codification 350, Goodwill and Other Intangible Assets, the recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present.

Goodwill is tested for impairment at the reporting unit level on an annual basis (May 31 for the Group) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

On June 1, 2019, the Group early adopted Accounting Standards Update ("ASU") 2017-04, Intangibles-Goodwill and Other (Topic 350) for the annual goodwill impairment test performed in the fiscal year 2020. Topic 350 permits the Group 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, which eliminated Step 2 from the goodwill impairment test on a prospective basis. The Group recognizes an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

The Group's intangible asset with indefinite useful life represents one trademark, our "New Oriental" brand, which is subject to renewal every ten years upon the expiration of the trademark registration at minimal cost. The Directors of the Company are of the opinion that the Group would renew the trademark continuously and has the ability to do so. The Directors of the Company also believe that the trademark has no foreseeable limit to the period over which the trademarked products are expected to generate net cash flows for the Group. As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortized until its useful life is determined to be finite. Instead it is tested for impairment annually or more frequently if there are indicators of impairment present.

The Group recorded nil, US\$5.2 million, nil and nil impairment losses on goodwill during the years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, respectively, and did not record any impairment loss related to its indefinite trademark during the years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020. Particulars of impairment testing of goodwill and trademark with indefinite useful life (including the key parameters used and a sensitivity analysis and the amount of headroom) are not disclosed further due to their quantitative insignificance to the Group's total assets.

FINANCIAL INFORMATION

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. Significant judgment is required in determining our provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

We account for income taxes using the asset and liability approach. 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, net of operating loss carry forwards and credits, by applying enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of operations in the period of change. Deferred tax assets are reduced by a valuation allowance when it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

We account for uncertain tax positions by reporting a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Tax benefits are recognized from uncertain tax positions when we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expenses.

Uncertainties exist with respect to how the PRC's Enterprise Income Tax Law applies to our overall operations, and more specifically, with regard to our tax residency status. The Enterprise Income Tax Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for PRC income tax purposes if their place of effective management or control is within the PRC. The implementation rules to the Enterprise Income Tax 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 Enterprise Income Tax 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 "Risk Factors — Risks Related to Doing Business in China — We may be treated as a resident enterprise for PRC tax purposes under the EIT Law, which may subject us to PRC income tax for our global income and withholding for any dividends we pay to our non-PRC shareholders and ADS holders."

Operating leases

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

On June 1, 2019, we adopted the new leasing standard, Leases ("ASC 842"), using the modified retrospective transition method resulting in the recording of operating lease right-of-use (ROU) assets of

FINANCIAL INFORMATION

US\$1,254.6 million and operating lease liabilities of US\$1,238.1 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 a material effect on the consolidated statements of operations. As of August 31, 2020, we recognized operating lease ROU assets of US\$1,487.2 million and total lease liabilities US\$1,502.9 million, including current portion at the amount of US\$411.6 million.

We determine if an arrangement is a lease or contains a lease at lease inception. Operating leases are required to be recorded in the balance sheets as ROU 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 account for the lease and non-lease components separately. 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 our 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. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expenses are recorded on a straight-line basis over the lease term.

Recently Issued Accounting Pronouncements

For a summary of recently issued accounting pronouncements, see Note 2 to our consolidated financial statements shown in the Accountants' Report in Appendix I to this document.

FINANCIAL INFORMATION

WORKING CAPITAL

We recorded net current assets of US\$1.2 billion, US\$1.5 billion, US\$1.3 billion and US\$1.6 billion, respectively, as of May 31, 2018, 2019 and 2020. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of May 31,			As of August 31,
	2018	2019	2020	2020
	US\$	US\$	US\$	US\$
				(unaudited)
	(in thousands)			
Current Assets:				
Cash and cash equivalents	983,319	1,414,171	915,057	1,047,605
Restricted cash	47	43	—	—
Term deposits	107,741	108,672	284,793	291,762
Short-term investments	1,623,763	1,668,689	2,318,280	2,778,408
Accounts receivable, net of allowance of US\$485, US\$503 and US\$557 as of May 31, 2018, 2019 and 2020, respectively . . .	3,179	3,300	4,178	4,939
Inventories, net	40,175	29,046	31,324	31,093
Prepaid expenses and other current assets, net of allowance of US\$914, US\$248 and US\$149 as of May 31, 2018, 2019 and 2020, respectively	182,095	199,677	199,404	201,298
Amount due from related parties, current	1,595	42,644	3,384	29,320
Total current assets	<u>2,941,914</u>	<u>3,466,242</u>	<u>3,756,420</u>	<u>4,384,425</u>
Current Liabilities:				
Accounts payable	39,889	34,057	33,147	34,432
Accrued expenses and other current liabilities	373,537	576,521	634,619	630,622
Income taxes payable	67,233	94,071	101,385	135,741
Amounts due to related parties	30	472	1,590	1,817
Deferred revenue	1,270,195	1,301,103	1,324,384	1,563,138
Operating Lease Liability-current	—	—	384,239	411,608
Total current liabilities	<u>1,750,884</u>	<u>2,006,224</u>	<u>2,479,364</u>	<u>2,777,358</u>
Net current assets	<u>1,191,030</u>	<u>1,460,018</u>	<u>1,277,056</u>	<u>1,607,067</u>

For a detailed discussion on our cash position, being the balance sheet item that has material impact on our liquidity, as well as material changes in the various working capital items, see “— Liquidity and Capital Resources.”

Our available financial resources also include unutilized banking facilities amounting to nil, US\$150 million, US\$130 million and nil as of May 31, 2018, 2019 and 2020 and August 31, 2020, respectively.

FINANCIAL INFORMATION

Taking into account cash and cash equivalents on hand, our operating cash flows, our unutilized banking facilities and the estimated net proceeds available to us from the Global Offering, our directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity has been cash generated from operating activities. As of August 31, 2020, we had US\$1,047.6 million and US\$4.9 million in cash and cash equivalents and restricted cash, respectively. Our cash and cash equivalents consist of cash on hand and liquid investments that are unrestricted as to withdrawal or use, have maturities of three months or less and are placed with banks and other financial institutions. Although we consolidate the results of New Oriental China and its schools and subsidiaries, we do not have direct access to the cash and cash equivalents or future earnings of New Oriental China. However, a portion of the cash balances of New Oriental China and its schools and subsidiaries are paid to our wholly-owned subsidiaries in China pursuant to contractual arrangements for the services our subsidiaries provide to New Oriental China and its schools and subsidiaries.

We expect to require cash to fund our ongoing business needs, particularly the rent and other cost and expenses relating to opening new schools and learning centers. We opened 321 new learning centers and closed 110 existing centres in fiscal year 2020. We plan to continue to add schools and learning centers in the future with a focus on opening new learning centers in fast growing, high profit margin cities. We expect to incur capital expenditures ranging from approximately RMB1.0 million (US\$0.1 million) to RMB4.0 million (US\$0.6 million) per new school depending primarily on the size and geographic location of the school. Other cash needs include acquisitions of businesses and properties that complement our operations when suitable opportunities arise. We have not encountered any difficulties in meeting our cash obligations to date. We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future.

FINANCIAL INFORMATION

The following table sets forth a summary of our cash flows for the periods indicated:

(in thousands of US\$)	For the Years Ended May 31,			For the Three Months Ended August 31,	
	2018	2019	2020	2019	2020
				(unaudited)	(unaudited)
Net cash provided by operating activities ⁽¹⁾	781,127	805,648	804,455	364,569	391,598
Net cash used in investing activities	(407,143)	(574,712)	(1,256,370)	(775,229)	(468,904)
Net cash (used in) provided by financing activities ⁽¹⁾	(74,881)	266,649	(17,862)	1,569	175,853
Effect of foreign exchange rate changes	42,992	(66,123)	(29,026)	(32,253)	34,508
Net change in cash, cash equivalents and restricted cash	342,095	431,462	(498,803)	(441,344)	133,055
Cash, cash equivalents and restricted cash at beginning of the period	644,670	986,765	1,418,227	1,418,227	919,424
Cash, cash equivalents and restricted cash at end of the period	<u>986,765</u>	<u>1,418,227</u>	<u>919,424</u>	<u>976,883</u>	<u>1,052,479</u>

Note:

- (1) The reclassification of restricted cash in the cash flows in the year ended May 31, 2018 is due to the adoption of ASU 2016-18: Statement of Cash Flows by using the retrospective application.

Operating Activities

Net cash provided by operating activities amounted to US\$391.6 million in the three months ended August 31, 2020. Our net cash provided by operating activities in the three months ended August 31, 2020 reflected net income of US\$150.8 million, as adjusted by an increase in the deferred revenue in the amount of US\$177.8 million due to the increased amount of course fees received during the period, an increase in income taxes payable of US\$33.4 million, and certain non-cash items, including US\$44.9 million in depreciation and US\$15.8 million in share-based compensation expense.

Net cash provided by operating activities amounted to US\$804.5 million in the fiscal year ended May 31, 2020. Our net cash provided by operating activities in the fiscal year ended May 31, 2020 reflected net income of US\$354.9 million, as adjusted by the reconciliation of certain non-cash items, including US\$146.3 million in depreciation and US\$62.1 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in the deferred revenue in the amount of US\$61.9 million due to the increased amount of course fees received during the period, and an increase in the accrued expenses and other current liabilities account of US\$63.7 million, primarily due to an increase in accrued employee salary expenses and welfare benefits.

Net cash provided by operating activities amounted to US\$805.6 million in the fiscal year ended May 31, 2019. Our net cash provided by operating activities in the fiscal year ended May 31, 2019 reflected net income of

FINANCIAL INFORMATION

US\$227.8 million, as adjusted by the reconciliation of certain non-cash items, including US\$110.0 million in depreciation and US\$71.3 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in the deferred revenues in the amount of US\$336.9 million due to the increased amount of course fees received during the period.

Net cash provided by operating activities amounted to US\$781.1 million in the fiscal year ended May 31, 2018. Our net cash provided by operating activities in the fiscal year ended May 31, 2018 reflected net income of US\$297.2 million, as adjusted by the reconciliation of certain non-cash items, including US\$77.1 million in depreciation and US\$57.4 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in the deferred revenues in the amount of US\$334.4 million due to the increased amount of course fees received during the period, and an increase in the accrued expenses and other current liabilities account of US\$68.2 million, primarily due to an increase in accrued employee salary expenses and welfare benefits.

Investing Activities

We lease all of our facilities except for part of the premises for the Beijing, Xi'an, Tianjin, Kunming, Wuhan, Guangzhou, Changsha, Xiamen, Zhengzhou, Hangzhou, Hefei and Yangzhou schools, which premises we own. Our cash used in investing activities is primarily related to our purchase of land use rights and the premises for the facilities we own and equipment used in our operations, our investment in term deposits and short term investments. Net cash used in investing activities amounted to US\$1,256.4 million in the fiscal year ended May 31, 2020, compared to US\$574.7 million in the fiscal year ended May 31, 2019 and US\$407.1 million in the fiscal year ended May 31, 2018. Net cash used in investing activities amounted to US\$468.9 million in the three months ended August 31, 2020.

Net cash used in investing activities in the three months ended August 31, 2020 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$354.6 million and the purchase of property and equipment in the amount of US\$95.2 million in connection with the expansion of our school network.

Net cash used in investing activities in the fiscal year ended May 31, 2020 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$715.9 million, purchase of term deposits in the amount of US\$249.0 million and the purchase of property and equipment in the amount of US\$309.5 million in connection with the expansion of our school network.

Net cash used in investing activities in the fiscal year ended May 31, 2019 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$162.7 million, purchase of term deposits in the amount of US\$104.2 million and the purchase of property and equipment in the amount of US\$269.1 million in connection with the expansion of our school network.

Net cash used in investing activities in the fiscal year ended May 31, 2018 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$224.5 million, term deposits in the amount of US\$117.2 million and the purchase of property and equipment in the amount of US\$214.3 million in connection with the expansion of our school network.

FINANCIAL INFORMATION

Our short-term investments are governed by our treasury management policy. Pursuant to the policy, we make investments in certain short-term, low-risk treasury management products offered by licensed state-owned commercial banks to gain short-term investment returns on our cash on hand. The underlying assets of these treasury management products generally include cash, bank deposits, interbank deposits, money market funds, various bonds, central bank notes, bond repurchase, etc. The risk classifications of these treasury management products range from very low risk to low risk, based on the internal risk assessment provided by the issuing banks.

Our investment decisions with respect to treasury management products are made on a case-by-case basis with due and careful considerations of various factors, including our current liquidity position, estimated cash inflows and outflows, availability of suitable products, among others. Our treasury department is responsible for assessing the risks and expected returns of and selecting suitable treasury management products, and our CEO and CFO are collectively responsible for reviewing the selection and making the final approval of the purchase. To achieve reasonable returns while mitigating our exposure to investment risks, we have established a set of policies and internal control measures, including:

- Investments in available-for-sale investments shall be made when we have surplus cash that is not required for our short-term working capital purposes;
- Financial products to be purchased shall be issued by licensed commercial banks with established relationship with us;
- The types of investments shall be generally very low risk or low risk treasury management products issued by licensed commercial banks in the PRC;
- We evaluate the risks associated with the underlying financial instruments based on the risk classification of the issuing licensed commercial banks; and
- Investments shall generally be short-term (one year or less) and of a non-speculative nature in order to maintain our liquidity and financial flexibility.

For long-term investments, we adopted an equity investment policy, which guides investment decisions and is focused on high quality investments which mitigates the risk of impairment. Such policy provides for guidelines regarding investment procedures, target selection, transaction evaluation, due diligence, documentation, and reporting, and post-investment management. Our equity investments with a consideration over US\$5 million are overseen by our board and those below the threshold are overseen by our equity investment management committee, consisting of our chairman of the board, the CEO, and the CFO. The board or the committee considers viability of projects, valuation of targets, and planned investment proceeds, among others. The equity investment management committee also hears reports regularly throughout the transaction process of the equity investments.

FINANCIAL INFORMATION

Financing Activities

Net cash used in financing activities amounted to US\$17.9 million in the fiscal year ended May 31, 2020, compared to net cash provided by financing activities of US\$266.6 million in the fiscal year ended May 31, 2019 and net cash used in financing activities of US\$74.9 million in the fiscal year ended May 31, 2018. Net cash provided by financing activities amounted to US\$175.9 million in the three months ended August 31, 2020.

Net cash provided by financing activities in the three months ended August 31, 2020 was primarily attributable to proceeds from issuance of unsecured senior notes in the amount of US\$297.1 million.

Net cash used in financing activities in the fiscal year ended May 31, 2020 was primarily attributable to proceeds from long-term loan in the amount of US\$20.0 million and contingent consideration payments made after a business combination in the amount of US\$18.3 million.

Net cash provided by financing activities in the fiscal year ended May 31, 2019 was primarily attributable to proceeds from issuance of ordinary shares relating to the IPO of Koolearn in the amount of US\$233.3 million.

Net cash used in financing activities in the fiscal year ended May 31, 2018 was primarily attributable to dividend paid to the shareholders in the amount of US\$71.2 million.

Selected Balance Sheet Items

Cash and cash equivalents, restricted cash, term deposits, short-term investments

The sum of our cash and cash equivalents, restricted cash, term deposits, short-term investments was US\$2,718.3 million, US\$3,195.6 million, US\$3,522.5 million and US\$4,122.6 million as of May 31, 2018, 2019 and 2020 and August 31, 2020, respectively. The increases were primarily attributable to net cash provided by operating activities in each of the fiscal years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, and the IPO of Koolearn in the fiscal year ended May 31, 2019.

Property and equipment, net

Our property and equipment, net was US\$449.6 million, US\$532.0 million, US\$672.5 million and US\$743.8 million as of May 31, 2018, 2019 and 2020 and August 31, 2020, respectively. The fluctuations were primarily attributable to the expansion of our school network as well as depreciation and amortization.

Right-of-use assets

Our right-of-use assets was nil, nil, US\$1,425.5 million and US\$1,487.2 million as of May 31, 2018, 2019 and 2020 and August 31, 2020, respectively. The amount as of May 31, 2020 and August 31, 2020 was due to the adoption of ASC 842. See “— CRITICAL ACCOUNTING POLICIES — Operating leases.”

FINANCIAL INFORMATION

Deferred revenue

Our deferred revenue was US\$1,270.2 million, US\$1,301.1 million, US\$1,324.4 million and US\$1,563.1 million as of May 31, 2018, 2019 and 2020 and August 31, 2020, respectively. The increases were primarily attributable to increased student enrollment. Deferred revenues as of May 31, 2020, amounting to US\$1,324.4 million, are expected to be realized in the following year. The difference between the opening and closing balances of the Group's deferred revenue primarily results from the timing difference between the Group's satisfaction of its performance obligation and the customer's payment pattern.

Operating lease liabilities

Our operating lease liabilities was nil, nil, US\$1,462.2 million and US\$1,502.9 million as of May 31, 2018, 2019 and 2020 and August 31, 2020, respectively. The amount as of May 31, 2020 and August 31, 2020 was due to the adoption of ASC 842. See “— CRITICAL ACCOUNTING POLICIES — Operating leases.”

HOLDING COMPANY STRUCTURE

Overview

We are a holding company with no material operations of our own. We conduct substantially all of our education business in China through contractual arrangements with our variable interest entities, and their schools and subsidiaries and shareholders. See “History — Contractual Arrangements” for a summary of these contractual arrangements. In the fiscal years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, our variable interest entities contributed in aggregate 98.8%, 98.7%, 96.5% and 99.9%, respectively, of our total net revenues. Our operations not conducted through contractual arrangements with our variable interest entities primarily consist of the leasing of our commercial property. As of May 31, 2019 and 2020 and August 31, 2020, our variable interest entities accounted for an aggregate of 67.5%, 74.0% and 73.3%, respectively, of our total assets, and 90.5%, 93.9% and 90.4%, respectively, of our total liabilities. The assets not associated with our variable interest entities primarily consist of cash and cash equivalents, term deposits and short-term investments.

As a holding company, our ability to pay dividends and other cash distributions to our shareholders depends in part upon dividends and other distributions paid to us by our PRC subsidiaries. The amount of dividends paid by our PRC subsidiaries to us primarily depends on the service fees paid to our PRC subsidiaries from our variable interest entities, and, to a lesser degree, our PRC subsidiaries' retained earnings. Conducting our operations through contractual arrangements with our variable interest entities entails a risk that we may lose the power to direct the activities that most significantly affect the economic performance of our variable interest entities, which may result in our being unable to consolidate their financial results with our results and may impair our access to their cash flow from operations and thereby reduce our liquidity. See “Risk Factors — Risks Related to Our Corporate Structure” for more information, including the risk factors titled “If the PRC government finds that the agreements that establish the structure for operating some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the

FINANCIAL INFORMATION

interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations” and “We rely on contractual arrangements for our operations in China, which may not be as effective in providing operational control as direct ownership.”

Dividend Distributions

Under PRC law, each of our PRC subsidiaries, variable interest entities and their respective subsidiaries which is not a for-profit private school is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory surplus reserve until such reserve reaches 50% of its registered capital and to further set aside a portion of its after-tax profit to fund the reserve fund at the discretion of our board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. In addition, each of our schools that requires or does not requires reasonable returns in China is required to allocate a certain amount out of its annual net income or annual increase in the net assets, if any, to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. For our schools which have elected to require reasonable returns, this amount shall be no less than 25% of the annual net income of the school, and for our schools which have elected not to require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any. Upon the effectiveness of the Amended Law for Promoting Private Education in September 2017, sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law and other relevant laws and regulations. Our PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations.

Pursuant to contractual arrangements that our wholly-owned subsidiaries in China have with our variable interest entities, the earnings and cash of variable interest entities and their schools and subsidiaries are used to pay service fees in RMB to our PRC subsidiaries in the manner and amount set forth in these agreements. After paying the applicable withholding taxes and making appropriations for its statutory reserve requirement, the remaining net profits of our PRC subsidiaries would be available for distribution to three Hong Kong-incorporated intermediate holding companies wholly owned by our company, and from these three Hong Kong-incorporated intermediate holding companies to our company. See “History — Corporate Structure” for a diagram of our corporate structure. As of May 31, 2020, the net assets of our PRC subsidiaries and variable interest entities and their schools and subsidiaries which were restricted due to statutory reserve requirements and other applicable laws and regulations, and thus not available for distribution, were in aggregate US\$513.7 million, and the net assets of our PRC subsidiaries and variable interest entities and their schools and subsidiaries which were unrestricted and thus available for distribution were in aggregate US\$2,223.6 million. We do not believe that these restrictions on the distribution of our net assets will have a significant impact on our ability to timely meet our financial obligations in the future. See “Risk Factors — Risks Related to Our Corporate Structure — We may rely on dividends and other distributions on equity paid by our wholly-owned subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries or New Oriental China and its schools and subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business” for more information.

FINANCIAL INFORMATION

Furthermore, cash transfers from our PRC subsidiaries to our Hong Kong-incorporated intermediate holding companies are subject to PRC government control of currency conversion. Restrictions on the availability of foreign currency may affect the ability of our PRC subsidiaries and New Oriental China and its schools and subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See “Risk Factors — Risks Related to Doing Business in China — Governmental control of currency conversion may affect the value of your investment.”

Capital Expenditures

The expansion of our network of schools, learning centers, OMO system and bookstores has required significant investment. Our capital expenditures were US\$214.3 million, US\$269.1 million, US\$309.5 million and US\$95.2 million in the fiscal years ended May 31, 2018, 2019 and 2020 and the three months ended August 31, 2020, respectively. Our capital expenditures are incurred primarily in connection with facility acquisitions, leasehold improvements and investments in equipment, technology and operating systems. We intend to cost-efficiently allocate our capital resources by leasing most of our new facilities in the foreseeable future. We may also make acquisitions of businesses and properties that complement our operations when suitable opportunities arise. We believe that we will be able to fund our capital needs in the foreseeable future through cash generated from our operating activities.

MATERIAL RELATED PARTY TRANSACTIONS

For details relating to our related party transactions, see “Related Party Transactions”. Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders’ equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

FINANCIAL INFORMATION

Contractual Obligations

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

(in thousands of US\$)	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Obligations ⁽¹⁾	1,611,210	407,854	670,795	355,577	176,984
Purchase and Leasehold Improvements Obligations ⁽²⁾	33,049	33,049	—	—	—
Long-Term Loan Obligations	120,000	—	120,000	—	—
Other Commitment ⁽³⁾	5,095	3,309	1,786	—	—
Total	1,769,354	444,212	792,581	355,577	176,984

Notes:

- (1) Represents lease obligations under our facility leases.
- (2) Represents leasehold improvement obligations in connection with renovations of the leased facilities and purchase of property and equipment.
- (3) Represents interests to be paid for the long-term loan entered in December 2018 as discussed in Note 14.

As of August 31, 2020, we had outstanding principal amounts of unsecured senior notes of US\$300 million, which were unsecured and unguaranteed. As of August 31, 2020, we also had operating lease liabilities amounting to US\$1.5 billion, certain of which were secured by the rental deposits and all of which were unguaranteed. For detailed information of our indebtedness, see “Unaudited Interim Condensed Consolidated Balance Sheet” as set out in Appendix IA to this document.

As of August 31, 2020, we did not have significant contingent liabilities.

Other than those shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of May 31, 2020.

DIVIDEND POLICY

On July 25, 2017, our board of directors declared a special cash dividend in the amount of US\$0.45 per ADS. The cash dividend was paid in October 2017 to shareholders of record at the close of business on September 6, 2017. The aggregate amount of cash dividends paid was approximately US\$71.2 million. We currently do not have any dividend policy.

Our board of directors has complete discretion regarding whether to declare and distribute dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to the same extent as holders of our common shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder.

FINANCIAL INFORMATION

MATERIAL ADVERSE CHANGE

After due and careful consideration, our directors confirm that, up to the date of the Prospectus, there has not been any material adverse change in our financial or trading position or prospects since May 31, 2020, and there is no event since May 31, 2020 which would materially affect the information shown in the Accountants' Report in Appendix I to this document.

LISTING EXPENSES

We expect to incur listing expenses of approximately HK\$188.0 million after May 31, 2020, representing approximately 1.6% of the gross proceeds (assuming that the Global Offering is conducted at the indicative offer price per Offer Share of HK\$1,399.00 for both Hong Kong Public Offering and International Offering and the Over-allotment Option is not exercised). We expect most of the listing expenses will be recorded as a deduction in equity directly.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company prepared in accordance with paragraph 4.29 of the Listing Rules is set out below to illustrate the effect of the proposed global offering of the Company (the "Global Offering") on the audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 as if the Global Offering had taken place on that day.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company, had the Global Offering been completed as at May 31, 2020 or any future dates following the Global Offering.

FINANCIAL INFORMATION

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company is prepared based on the audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 as derived from the Accountants' Report, the text of which is set out in Appendix I, and adjusted as described below:

		Unaudited					
		pro forma	Unaudited	Unaudited	Unaudited	Unaudited	
		adjusted	pro forma	pro forma	pro forma	pro forma	
		consolidated	adjusted	adjusted	adjusted	adjusted	
		net tangible	consolidated	consolidated	consolidated	consolidated	
		assets of the	net tangible	net tangible	net tangible	net tangible	
		Group	assets of the	assets of the	assets of the	assets of the	
		attributable	attributable	Group	Group	Group	
		to ordinary	to ordinary	attributable	attributable	attributable	
		shareholders	shareholders	to ordinary	to ordinary	to ordinary	
		of the	of the	shareholders	shareholders	shareholders	
		Company as	Company as	of the	of the	of the	
		of May 31,	of May 31,	Company	Company	Company	
		2020	2020	per Share	per ADS	per Share	
		US\$'000	US\$'000	US\$	US\$	HK\$	HK\$
		(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 5)

Based on the indicative

offer price of

HK\$1,399.00 per

Offer Share	2,642,683	1,511,934	4,154,617	24.87	24.87	192.75	192.75
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Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 is derived from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 of US\$2,733,295,000 with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of the Company of US\$80,366,000 and US\$10,246,000, respectively.
- (2) The estimated net proceeds from the Global Offering are based on 8,510,000 new Shares to be issued at the indicative Offer Price of HK\$1,399.00 per new Share after deduction of the estimated listing and share issue costs (including underwriting fees and other related expenses) expected to be incurred by the Group subsequent to May 31, 2020 and does not take into account of any allotment and issuance of any Shares upon the exercise of the over-allotment option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or vesting of the non-vested equity shares ("NES") under the 2016 Share Incentive Plan or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into US\$ was made at the exchange rate of US\$1.00 to HK\$7.7500, which is obtained from the exchange rate of Hong Kong dollars and U.S. Dollars on October 16, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, would have been or may be converted to US\$, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share as at May 31, 2020 is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 167,050,080 Shares were in issue assuming that the Global Offering had been completed on May 31, 2020 without taking into account any allotment and issuance of any Shares upon the exercise of the over-allotment option, the Shares to be issued pursuant to the Share

FINANCIAL INFORMATION

Incentive Plan, including pursuant to the exercise of options or the vesting of the NES under the 2016 Share Incentive Plan or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company.

- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents one Share.
- (5) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share is converted from US\$ into Hong Kong dollars at the exchange rate of US\$1.00 to HK\$7.7500, which is obtained from the exchange rate of Hong Kong dollars and U.S. Dollars on October 16, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that the US\$ have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (6) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 to reflect any trading results or other transactions of the Group entered into subsequent to May 31, 2020.

DIRECTORS AND SENIOR MANAGEMENT

OVERVIEW

The following table sets out certain information in respect of our directors and senior management:

Name	Age	Position(s)	Date of appointment as director or senior manager	Year of joining our Group
Michael Minhong Yu . . .	57	Director and Executive Chairman	August 2001	1993
Chenggang Zhou	58	Director and Chief Executive Officer	November 2010	2000
Zhihui Yang	46	Chief Financial Officer	April 2015	2006
Louis T. Hsieh	55	Director	March 2007	2005
Robin Yanhong Li	51	Independent director	September 2006	2006
Denny Lee	52	Independent director	September 2006	2006
John Zhuang Yang	65	Independent director	August 2007	2007

BIOGRAPHIES

Our directors

Our board consists of six directors, including three independent non-executive directors. See “— Board Practices” for the functions and duties of our board. Our board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association, and all applicable laws, including the Hong Kong Listing Rules.

Mr. Michael Minhong Yu is the founder of our company and has served as the chairman of our board of directors since August 2001. He was also our chief executive officer from 2001 to September 2016. Mr. Yu also serves as Standing Committee Member of the Central Committee of the China Democratic League. Formerly, Mr. Yu served as Vice Chairman of China Youth Entrepreneurs Association. Prior to founding our first school in 1993, Mr. Yu was an English instructor at Peking University from 1985 and 1991. Mr. Yu currently serves as the chairman of the board and non-executive director of Koolearn (HKEX:1797), and was a director of Sunlands Technology Group (NYSE:STG) from August 2017 (and an independent director from March 2018) to June 2019. Mr. Yu received his bachelor’s degree in English from Peking University.

Mr. Chenggang Zhou has served as our director since November 2010 and chief executive officer since September 2016. Mr. Zhou joined New Oriental in 2000 and has held multiple positions in our company since then, including president, executive president for domestic business, executive vice president, vice president and president of Beijing and Shanghai New Oriental Schools. Prior to joining us, Mr. Zhou was a correspondent for the Asia Pacific region and a program host at BBC. Mr. Zhou received his bachelor’s degree in English from Suzhou University in China and his master’s degree in communications from Macquarie University, Australia. See also “Business — Legal and Administrative Proceedings — Litigation” for further information on certain pending litigation involving Mr. Zhou.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Louis T. Hsieh has served as our director since March 2007 and senior advisor since January 2016. From May 2009 to January 2016, Mr. Hsieh served as our president, and from December 2005 to April 2015, he served as our chief financial officer. Mr. Hsieh was the chief financial officer of NIO Inc., an NYSE-listed (NYSE:NIO) electronic vehicle company in China, from May 2017 to October 2019. Mr. Hsieh also serves as an independent director of JD.com Inc., a Nasdaq-listed (NASDAQ:JD) and Hong Kong-listed (HKEX:9618) e-commerce company and retail infrastructure service provider in China, and YUM China Holdings, an NYSE-listed (NYSE:YUMC) and Hong Kong-listed (HKEX:9987) fast food restaurant. Prior to joining us in 2005, Mr. Hsieh was the chief financial officer of ARIO Data Networks, Inc. in San Jose, California from 2004 to 2005. Prior to that, Mr. Hsieh was a managing director for the private equity firm of Darby Asia Investors (HK) Limited from 2002 to 2003. From 2000 to 2002, Mr. Hsieh was managing director and Asia-Pacific tech/media/telecoms head of UBS Capital Asia Pacific, the private equity division of UBS AG. From 1997 to 2000, Mr. Hsieh was a technology investment banker at JP Morgan in San Francisco, California, where he was a vice president, and Credit Suisse First Boston in Palo Alto, California, where he was an associate. From 1990 to 1996, Mr. Hsieh was a corporate and securities attorney at White & Case LLP in Los Angeles. Mr. Hsieh holds a bachelor's degree in industrial engineering and engineering management from Stanford University, an MBA degree from the Harvard Business School, and a J.D. degree from the University of California at Berkeley.

Mr. Robin Yanhong Li has served as our independent director since September 2006. Mr. Li is a co-founder of Baidu, Inc., the leading Chinese language Internet search provider listed on the Nasdaq Global Select Market (NASDAQ:BIDU). Mr. Li has served as the chairman of the board of directors of Baidu since its inception in January 2000 and as its chief executive officer since February 2004. He served as the president of Baidu from February 2000 to December 2003. Prior to founding Baidu, Mr. Li worked as an engineer at Infoseek, a pioneer in the Internet search engine industry, from July 1997 to December 1999. Currently, Mr. Li acts as the vice chairman of the Internet Society of China (ISC). Mr. Li has also been a vice chairman of All-China Federation of Industry & Commerce since December 2012. Mr. Li received a bachelor's degree in information science from Peking University and a master's degree in computer science from the State University of New York at Buffalo.

Mr. Denny Ting Bun Lee has served as our independent director since September 2006. Mr. Lee has served as a director of NetEase, Inc., formerly known as Netease.com, Inc., a leading internet technology company in China listed on the Nasdaq Global Select Market (NASDAQ:NETS) and the Hong Kong Stock Exchange (HKEX:9999), since April 2002. He was the chief financial officer of NetEase.com, Inc. from April 2002 to June 2007 and its financial controller from November 2001 to April 2002. Prior to joining NetEase.com, Inc. in 2001, Mr. Lee worked in the Hong Kong office of KPMG for more than ten years. Mr. Lee currently serves as the chairman of the audit committees and an independent non-executive director on the boards of Concord Medical Services Holdings Limited (NYSE:CCM), Jianpu Technology Inc. (NYSE:JT) and NIO Inc. (NYSE:NIO), which are listed on the New York Stock Exchange, and as an independent non-executive director on the board of China Metal Resources Utilization Ltd. (HKEX: 1636), which is listed on the main board of Hong Kong Stock Exchange. Mr. Lee graduated from the Hong Kong Polytechnic University majoring in accounting and is a member of The Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified Accountants.

DIRECTORS AND SENIOR MANAGEMENT

Dr. John Zhuang Yang has served as our independent director since August 2007. Dr. Yang currently serves as a professor of management at National School of Development of Peking University and the academic director of the Doctor of Professional Studies in Business (DPS) Program at National School of Development of Peking University. Dr. Yang holds a Ph.D. degree in business administration from Columbia University, a master's degree in sociology from Columbia University, a master's degree in international and public affairs from the Woodrow Wilson School of Public and International Affairs at Princeton University, and a bachelor's degree from the English Language and Literature Department of Peking University.

Senior management (aside from our directors)

Mr. Zhihui Yang has served as our chief financial officer since April 2015. Prior to that, Mr. Yang held multiple positions after he joined our company in April 2006, including vice president of finance, deputy director of president office and senior financial manager. Prior to joining us, Mr. Yang served as the financial director of Beijing Hua De Xin Investment Co., Ltd. from July 2002 to April 2006. From August 1997 and May 2002, Mr. Yang worked for PricewaterhouseCoopers as a senior auditor. Mr. Yang received his bachelor's degree in economics from Guanghua School of Management of Peking University.

Save as disclosed in this document, and in “Risk Factors — Risks related to Our Business — Our reputation, results of operations, financial condition and the trading price of our ADSs may be negatively affected by adverse publicity or other detrimental conduct against us,” there is no other material matter relating to our directors that needs to be brought to the attention of our shareholders and the information of our directors disclosed in this document comply with the requirements under Rule 13.51(2) of the Hong Kong Listing Rules.

COMPENSATION

Compensation of our directors and executive officers

For each of the three fiscal years ended May 31, 2020, we paid an aggregate amount of US\$2.7 million, US\$3.2 million and US\$1.8 million in cash, respectively, to our executive officers and non-executive directors as a group.

In addition, for each of the three fiscal years ended May 31, 2020, we made contributions to the pension insurance, medical insurance, housing fund, unemployment and other benefits for the benefits of our executive officers and non-executive directors in the aggregate amount of US\$108,000, US\$133,000 and US\$106,000, respectively. See “— Share Incentive Plans” below for more information. No executive officer is entitled to any severance benefits upon termination of his employment with our company except as required under applicable PRC law.

Employment agreements

We have entered into employment agreements with each of our executive officers. We may terminate employment for cause, at any time, without notice or remuneration, for certain acts of the executive officer, such

DIRECTORS AND SENIOR MANAGEMENT

as a conviction of or plea of guilty to a felony, negligence or dishonesty to our detriment and failure to perform agreed duties after a reasonable opportunity to cure the failure, death, or physical or mental incapacitation. We may also terminate an executive officer's employment without cause. In such case we are required to provide severance compensations as expressly required by applicable law. An executive officer may terminate his employment with us at any time with a one-month prior notice if there is a material reduction in his or her authority, duties and responsibilities or if there is a material reduction in his or her annual salary before the next annual salary review. An executive officer may also resign prior to the expiry of the term of his or her employment agreement if our board approves his or her resignation or agrees to an alternative arrangement with such executive officer.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. Our executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice and to assign all right, title and interest in them to us, and assist us in obtaining patents, copyrights and other legal rights for these inventions, designs and trade secrets. In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and one year following the termination or expiry of such employment agreement. Specifically, each executive officer has agreed not to (1) approach our clients, customers or contacts or other persons or entities introduced to the executive officer for the purpose of doing business with such person or entities that will harm our business relationships with these persons or entities; (2) assume employment with or provide services as a director for any of our competitors, or engage, whether as principal, partner, licensor or otherwise, in any business which is in direct or indirect competition with our business or (3) seek directly or indirectly, to solicit the services of any of our employees who is employed by us on or after the date of the executive officer's termination, or in the year preceding such termination.

Share Incentive Plans

2006 Share Incentive Plan

Our 2006 Share Incentive Plan, as amended, (the “**2006 plan**”), is designed to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants and promote the success of our business.

The maximum aggregate number of shares which may be issued pursuant to all awards (including options) granted under the 2006 plan is 8,000,000 shares, plus (1) 5,000,000 shares added on January 1, 2007, (2) 5,000,000 shares added on January 1, 2008 and (3) an annual increase on the first business day of each calendar year beginning in 2009 equal to the lesser of (x) 3,000,000 shares, (y) two percent (2%) of the number of shares outstanding as of such date, and (z) a lesser number of shares determined by the administrator of the 2006 plan. The 2006 plan expired in January 2016. No additional awards may be granted under the 2006 plan

DIRECTORS AND SENIOR MANAGEMENT

after its expiration, but the expiration of the plan would not impair any award previously granted under the plan. We do not have any outstanding awards under our 2006 plan.

The following paragraphs describe the principal terms of the 2006 plan.

Types of Awards

We may grant the following types of awards under our 2006 plan:

- options to purchase our common shares;
- restricted shares, which are common shares issued to the grantee that are subject to transfer restrictions, right of first refusal, repurchase, forfeiture, and other terms and conditions as established by our plan administrator; and restricted share units, which may be earned upon the passage of time or the attainment of performance criteria and which may be settled for cash, common shares or other securities, or a combination of cash, common shares or other securities as established by our plan administrator;
- share appreciation rights, which entitle the grantee the right to common shares or cash compensation measured by the appreciation in the value of common shares; and
- dividend equivalent rights, which entitle the grantee to compensation measured by dividends paid with respect to common shares.

Plan Administration

Our board of directors, or a committee designated by our board or directors, administers the 2006 plan. The committee or the full board of directors, as appropriate, determines the provisions and terms and conditions of each award grant.

Award Agreement

Awards granted under our 2006 plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award. In addition, the award agreement also specifies whether the option constitutes an incentive share option (an “ISO”) or a non-qualifying stock option.

Eligibility

We may grant awards to our employees, directors and consultants, including those of our parent companies and subsidiaries. However, we may grant options that are intended to qualify as ISOs only to our employees and employees of our parent companies and subsidiaries.

DIRECTORS AND SENIOR MANAGEMENT

Acceleration of Awards upon Corporate Transactions

The outstanding awards will terminate and accelerate upon occurrence of certain significant corporate transactions, including amalgamations, consolidations, liquidations or dissolutions, sales of substantially all or all of the assets, reverse takeovers or acquisitions resulting in a change of control. If the successor entity assumes or replaces our outstanding awards under the 2006 plan, such assumed or replaced awards will become fully vested and immediately exercisable and payable, and be released from repurchase or forfeiture rights immediately upon termination of the grantee's continuous service to us if such service is terminated by the successor entity without cause within 12 months after the effective date of the corporate transaction. Furthermore, if the successor entity does not assume or replace our outstanding awards, each outstanding award will become fully vested and immediately exercisable and payable, and will be released from any repurchase or forfeiture rights immediately before the effective date of the corporate transaction, as long as the grantee's continuous service with us has not been terminated before this date.

Exercise Price and Term of Awards

In general, the plan administrator determines the exercise price of an option and sets forth the price in the award agreement. The exercise price may be a fixed or variable price related to the fair market value of our common shares. In September 2012, we amended the 2006 plan to clarify that the plan administrator has the power to reduce the exercise price of an outstanding option and also reduce the number of the underlying common shares without seeking shareholders' approval, if such modification would not result in significant additional share-based compensation expenses to be incurred by our company.

The term of each award under our 2006 plan will be specified in an award agreement, but the term of an ISO shall not exceed ten years from the date of grant thereof.

Vesting Schedule

In general, one-sixth of the common shares underlying the option will vest on each six-month anniversary of the vesting commencement date specified in the option award notice. The vesting will be suspended if the grantee's leave of absence exceeds 90 days and will resume upon the grantee's return to service to us. The vesting schedule of equity share awards is subject to the applicable award agreement.

2016 Share Incentive Plan

We adopted our 2016 Share Incentive Plan (the "**2016 plan**"), in January 2016 to continue to provide incentives to employees, directors and consultants after the expiration of our 2006 plan. The maximum aggregate number of shares which may be issued pursuant to all awards (including options) granted under the 2016 plan is 10,000,000 shares. The 2016 plan has a term of 10 years, unless terminated earlier. As of May 31, 2020, an aggregate of 1,256,505 non-vested equity shares remain outstanding under the 2016 Share Incentive Plan, excluding non-vested equity shares that were forfeited or canceled after the relevant grant date.

DIRECTORS AND SENIOR MANAGEMENT

The following paragraphs describe the principal terms of the 2016 plan.

Amendment of the Plan

Our board of directors may at any time amend, suspend or terminate the 2016 plan. Unless we decide to follow home country practice, the following amendments to the 2016 plan require approval from our shareholders (i) increase of the number of shares available under the 2016 plan, (ii) extension of the term of the 2016 plan, (iii) extension of the exercise period of an option beyond ten years, and (iv) any other amendments about which shareholders' approval are necessary and desirable under applicable laws or stock exchange rules.

The remaining terms of the 2016 plan are substantially identical to the terms of the 2006 plan described above.

Outstanding non-vested equity shares held by directors and executive officers

The following table summarizes, as of September 7, 2020, the outstanding non-vested equity shares ("NES") granted under our 2016 plan to our directors and executive officers.

Name	Common Shares		Date of Grant	Date of Expiration
	Underlying Outstanding NES	Exercise Price (US\$/Share)		
Chenggang Zhou	*	†	10/27/2017	12/31/2020
	*	†	10/24/2018	06/30/2021
Zhihui Yang	*	†	10/27/2017	12/31/2020
	*	†	10/24/2018	06/30/2021
Louis T. Hsieh	*	†	10/27/2017	12/31/2020
	*	†	10/24/2018	06/30/2021

Notes:

* The outstanding non-vested equity shares held represent less than 1% of our total outstanding voting securities.

† This denotes non-vested equity share awards.

Koolearn Share Option Schemes

On July 13, 2018, the board of directors of Koolearn approved an employee's share option plan, or the Koolearn Pre-IPO Share Option Scheme, under which Koolearn is authorized to issue up to 47,836,985 ordinary shares pursuant to awards granted to the directors, senior management, employees and contractors of Koolearn. Koolearn has granted options underlying all of its shares issuable under the Pre-IPO Share Option Scheme. As of May 31, 2020, options to subscribe for an aggregate of 39,251,485 shares remain outstanding under the Pre-IPO Share Option Scheme, excluding options that were forfeited, canceled or exercised after the relevant grant date.

DIRECTORS AND SENIOR MANAGEMENT

On January 30, 2019, the board of directors of Koolearn approved an employee's share option plan, or the Koolearn Post-IPO Share Option Scheme, under which Koolearn is authorized to issue up to 91,395,910 ordinary shares pursuant to awards granted to among others, directors, employees of Koolearn or its affiliate. As of May 31, 2020, Koolearn has granted options underlying an aggregate of 40,000,000 shares under the Koolearn Post-IPO Share Option Scheme, of which options underlying 1,801,000 shares were forfeited. As of May 31, 2020, options to subscribe for an aggregate of 38,199,000 shares remain outstanding under the Koolearn Post-IPO Share Option Scheme, excluding options that were forfeited, canceled or exercised after the relevant grant date.

BOARD PRACTICES

Board of Directors

Our board of directors currently consists of six directors, which consist of three independent directors and three directors who are our executive officers or employed by us. Section 303A.01 of the NYSE Listed Company Manual requires each listed company to have a majority of independent directors on the board of directors after the first anniversary of the company's listing on the NYSE. We are not required under the laws of the Cayman Islands to have a majority of independent directors on our board of directors. Pursuant to the exception granted to foreign private issuers under Section 303A.00 of the NYSE Listed Company Manual, we have elected to follow our home country practice with respect to our board of directors.

A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. Our independent directors hold executive sessions, during which only the independent directors are present, at least once a year. Depending on the nature of the discussion at an executive session, each of the three independent directors may preside at the executive sessions.

Independence of our directors

Each of our three non-executive directors (being our independent directors and all of the members of the audit committee of our board) has been determined by our board to be "independent" under applicable U.S. regulations and act as an independent non-executive director for the purpose of the Hong Kong Listing Rules; they have each given a confirmation on their "independence" to us and the Hong Kong Stock Exchange, addressing the factors set out in Rule 3.13 of the Hong Kong Listing Rules.

Our board of directors has determined that Denny Lee, an independent director (under the standards set forth in Section 303A of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act) and the chairman of our audit committee, is our audit committee financial expert. He also has the appropriate professional accounting or financial management experience for the purpose of Rule 3.10(2) of the Hong Kong Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

Terms of directors and officers

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office by ordinary resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director (1) becomes bankrupt or makes any arrangement or composition with his creditors; or (2) is found by our company to be or becomes of unsound mind.

Code of ethics

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, vice presidents and any other persons who perform similar functions for us. Our code of ethics is publicly available on our website.

Duties of our 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 skill they actually possess and such care and diligence 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 memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

Board committees

We have established three fully independent committees under the board of directors: the audit committee, the compensation committee and the nominating and corporate governance committee. We have adopted a charter for each of the three committees. The committee charters are available on our website. Each committee's members and functions are described below.

Audit committee

Our audit committee consists of Mr. Denny Lee, Mr. Robin Yanhong Li and Dr. John Zhuang Yang. Mr. Lee is the chairman of our audit committee. All of the members of our audit committee satisfy the "independence" requirements of Section 303A of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act, and have confirmed their "independence" under the Hong Kong Listing Rules with reference to the factors set out in Rule 3.13 of the Hong Kong Listing Rules. Our board of directors has determined that Mr. Denny Lee's simultaneous service on the audit committee of two other public companies would not impair his ability to effectively serve on our audit committee.

DIRECTORS AND SENIOR MANAGEMENT

The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting the independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by the independent registered public accounting firm;
- reviewing with the independent registered public accounting firm any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the U.S. Securities Act of 1933, as amended;
- discussing the annual audited financial statements with management and the independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies; and
- meeting separately and periodically with management and the independent registered public accounting firm.

Compensation committee

Our compensation committee consists of Mr. Robin Yanhong Li, Mr. Denny Lee and Dr. John Zhuang Yang. Mr. Li is the chairman of our compensation committee. All of the members of our compensation committee satisfy the "independence" requirements of Section 303A of the NYSE Listed Company Manual.

The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving the total compensation package for our chief executive officer;
- reviewing and recommending to the board with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, and employee pension and welfare benefit plans.

DIRECTORS AND SENIOR MANAGEMENT

Nominating and corporate governance committee

Our nominating and corporate governance committee consists of Dr. John Zhuang Yang, Mr. Robin Yanhong Li and Mr. Denny Lee. Dr. Yang is the chairman of our nominating and corporate governance committee. All of the members of our nominating and corporate governance committee satisfy the “independence” requirements of Section 303A of NYSE Listed Company Manual.

The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

With a view to maintaining a board that best represents the interests of our Company and shareholders, and considering the current gender composition of our board, our board is set to commence the process of identifying a suitable female director candidate and will provide an update in our next annual report following the Listing on the progress of recruiting a female director.

MAJOR SHAREHOLDERS

Unless specifically noted, the following table summarizes the beneficial ownership of our Shares held as at the Latest Practicable Date by:

- (a) each of our directors and our executive officers;
- (b) our directors and our executive officers as a group; and
- (c) each person known to us to beneficially own more than 5% of our total outstanding Shares.

The calculations are based on 160,379,387 Shares being the number of total issued Shares as at the Latest Practicable Date.

Beneficial ownership is determined in accordance with SEC rules and regulations. In calculating the number of Shares beneficially owned by a person and the percentage of ownership held by that person, we have included Shares that the person has a right to acquire within 60 days, including through the exercise of any option, warrant or other right, the vesting of any restricted shares, or the conversion of any other security. These shares and associated votes, however, are not included when calculating the percentage of ownership held by any other person.

	Number of Shares Beneficially Owned	
	Number	Percentage
5% shareholders		
Tigerstep Developments Limited ⁽¹⁾	19,738,554	12.3%

	Number of Shares Beneficially Owned	
	Number	Percentage
Our directors and executive officers		
Michael Minhong Yu ⁽¹⁾	19,750,272	12.3%
Chenggang Zhou	*	*
Zhihui Yang	*	*
Louis T. Hsieh	*	*
Robin Yanhong Li	*	*
Denny Lee	*	*
John Zhuang Yang	*	*
All directors and executive officers as a group ⁽²⁾	20,450,883	12.8%

Notes:

* Less than 1%.

MAJOR SHAREHOLDERS

- (1) Represents: (i) 17,800,000 Shares held by Tigerstep Developments Limited (“**Tigerstep**”), a British Virgin Islands company wholly-owned by Mr. Michael Minhong Yu (“**Mr. Yu**”), and (ii) 1,950,272 ADSs (representing the same number of underlying Shares), which consist of 1,938,554 ADSs held by Tigerstep and 11,718 ADSs held by Mr. Yu. Through a trust arrangement, Mr. Yu, together with his family, holds beneficial interest in Tigerstep Developments Limited.
- (2) Shares owned by all of our current directors and executive officers as a group include Shares beneficially owned by Mr. Yu. This amount includes Shares issuable pursuant to non-vested equity shares held by our directors and executive officers.

RELATED PARTY TRANSACTIONS

We are seeking a listing on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules. Pursuant to Rule 19C.11 of the Hong Kong Listing Rules, Chapter 14A of the Hong Kong Listing Rules, governing connected transactions, does not apply to us. The following discussion of related party transactions has been prepared pursuant to the requirements of Form 20-F of the SEC, and is included in this document for disclosure purposes only.

AGREEMENTS WITH KOOLEARN

Deed of Non-Competition Undertakings

On March 28, 2019, Koolearn completed its initial public offering and the listing of its shares on the Main Board of the Hong Kong Stock Exchange. We issued a deed of non-competition undertakings on August 28, 2018 in favor of Koolearn with respect to the ongoing relationship between us and Koolearn after the listing of Koolearn's shares on the Hong Kong Stock Exchange. Pursuant to this deed, we undertake, among other things, not to, and procure our group entities not to, carry on engage or participate in online education services within China, except for (i) making minority investments in a business that provide online education services in China, or (ii) operating our existing Blingabc and Leci businesses with the restrictions set forth in the deed of non-competition undertakings, provided, however, if we propose to issue or transfer any equity interest in these businesses, Koolearn has the option to purchase all or any portion of the offered equity interest. The foregoing undertaking will end if Koolearn's securities cease to be listed on the Hong Kong Stock Exchange or 12 months after we cease to be the controlling shareholder of Koolearn, whichever is earlier.

CONTRACTUAL ARRANGEMENTS WITH (I) NEW ORIENTAL CHINA, ITS SCHOOLS, SUBSIDIARIES AND SHAREHOLDER AND (II) BEIJING XUNCHENG, ITS SUBSIDIARIES AND SHAREHOLDERS

PRC laws and regulations currently limit foreign ownership of companies that engage in businesses such as education and value-added telecommunications service business in China. Due to these restrictions, we operate our relevant business through contractual arrangements with our variable interest entities. See "History — Contractual Arrangements" for a summary of the contractual arrangements we have entered into with (i) New Oriental China and its subsidiaries and shareholder and (ii) Beijing Xuncheng and its subsidiaries and shareholders.

EMPLOYMENT AGREEMENTS

See "Directors and Senior Management — Compensation — Employment Agreements" for a description of the employment agreements we have entered into with our senior executive officers.

SHARE INCENTIVES

See "Directors and Senior Management — Compensation — Compensation of our directors and executive officers" for a description of share-based compensation we have provided to our directors, officers and other individuals as a group.

RELATED PARTY TRANSACTIONS

LEASE ARRANGEMENTS WITH AN AFFILIATE

Since April 2010, we have been renting several floors of office space in a building in Beijing owned by Metropolis Holding China Limited (“**Metropolis Holding**”). In March 2012, Fine Talent Holdings Limited, a British Virgin Islands company wholly-owned by Mr. Michael Minhong Yu, our executive chairman, purchased all of the equity interests in Metropolis Holding from its former owner which was and is unrelated to us. As a result, our lease agreements with Metropolis Holding became related party transactions.

As of May 31, 2020, 12 of our operating entities rented office space from Metropolis Holding pursuant to a series of lease agreements. The terms and conditions, including rental rates, of these lease agreements are generally the same as other tenants in the same building. These lease agreements are typically three years and can be renewed upon mutual agreements upon expiration. The lease arrangements were approved by all of our directors, including all of the disinterested directors. During the fiscal year ended May 31, 2020, we accrued a total of US\$9.6 million rent to Metropolis Holding. As of May 31, 2020, amounts due from Metropolis Holding were US\$3.5 million, which represented prepaid rent and rental deposits, are trade in nature.

NEW ORIENTAL EDUCATION AND CULTURE INDUSTRY INVESTMENT FUND

In July 2018, New Oriental Education and Culture Industry Fund (Zhangjiagang) Partnership (Limited Partnership), or the New Oriental Education and Culture Industry Investment Fund, a 7-year growth equity fund with the total committed capital of RMB1.5 billion, was established. One of the general partners of the fund is an entity indirectly invested in Mr. Michael Minhong Yu and the other general partner is not a related party. We participate in the fund as a limited partner and invested RMB500 million in the fund. The fund will focus on investment opportunities in the education industry and expects to invest in the whole industry chain of education with emphasis on six main themes, including pre-school education, K-12 education, non-disciplinary education, occupational education, international education and AI in education. As of May 31, 2019, we had US\$8.7 million due from the New Oriental Education and Culture Industry Investment Fund, the amount of which was non-trade in nature. The outstanding balance has been fully repaid and there is no amount due from the related party as of May 31, 2020.

LOANS TO A RELATED PARTY

Beijing Dianshi Jingwei Technology Co., Ltd. (“**Dianshi Jingwei**”) is an equity method investee of us. As of May 31, 2020, the outstanding balance of the loans provided to Dianshi Jingwei were US\$21.0 million, non-trade in nature, with an annual interest rate of 10%. The loans were initially granted in 2018 and the maturity date of the loans were extended several times and recorded as non-current assets as of May 31, 2020. During the year ended of May 31, 2020, no interests were received by us.

The extended loans were personally guaranteed by Mr. Michael Minhong Yu, our executive chairman, and Mr. Yunhai Jia, the chief executive officer of Dianshi Jingwei. According to the loan agreements, if Dianshi Jingwei defaults on the loan payments and interests, we have a right to convert the unpaid loans into Dianshi Jingwei’s equity. During the year ended May 31, 2020, Dianshi Jingwei repaid US\$701 thousand to us. Based on discussions with Dianshi Jingwei in October 2020, the remainder of this loan is expected to be repaid to us before the Listing.

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH OTHER RELATED PARTIES

During the fiscal year ended May 31, 2020, we recorded revenue in the amount of US\$479 thousand from other related parties. As of May 31, 2020, we had US\$1.6 million in aggregate due from other related parties and US\$1.4 million in aggregate due to other related parties. Within the amounts due from other related parties as of May 31, 2020, US\$0.8 million was trade in nature and the remaining amount of US\$0.8 million was non-trade in nature. The amounts due to other related parties as of May 31, 2020 were trade in nature.

REGULATIONS

This section summarizes the principal PRC regulations relating to our businesses.

We operate our business in China under a legal regime consisting of the State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its authority, including the Ministry of Education, or the MOE, the National Press and Publication Administration, or NPPA, the Ministry of Industry and Information Technology, or the MIIT, the SAMR, the Ministry of Civil Affairs and their respective authorized local counterparts.

REGULATIONS ON PRIVATE EDUCATION

Education Law of the PRC

In March 1995, the National People's Congress enacted the Education Law of the PRC (《中華人民共和國教育法》), or the Education Law, which was later amended on August 27, 2009. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising kindergarten education, primary education, secondary education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. The Education Law stipulates that the State formulates plans for the development of education, establishes and operates schools and other educational institution. Furthermore, it provides that enterprises, other social organizations and individual citizens are encouraged to establish and operate schools and other types of educational institutions in accordance with PRC laws. The Education Law also provides that some basic conditions shall be met for the establishment of a school or any other educational institution, and the establishment, modification or termination of a school or any other educational institution shall, in accordance with the relevant PRC laws, go through the formalities of examination, verification, approval, registration or filing for record.

The 2009 amended Education Law prohibits any organization or individual from establishing or operating a school or any other educational institution for profit-making purposes. In December 2015, the Education Law was further amended with effect from June 2016. The 2015 amended Education Law abolishes the aforesaid provision. Thereafter, establishing or operating schools for profit-making purposes is allowed under the newly amended Education Law. Nevertheless, schools and other educational institutions sponsored wholly or partially by government funds or donated assets are still prohibited from being operated as for-profit.

The Law for Promoting Private Education and Its Implementation Rules

The principal regulations governing private education in China are the Law for Promoting Private Education (《中華人民共和國民辦教育促進法》), or the Private Education Law, and its implementation rules.

Prior to the amendment of the Private Education Law in 2016, private education is treated as a public welfare undertaking in all aspects. Nonetheless, investors of 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. Private

REGULATIONS

schools were divided into three categories: private schools established with donated funds; private schools that require reasonable returns and private schools that do not require reasonable returns. Prior to the amendment of the Private Education Law in 2016, 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 or its local counterparts as a privately run non-enterprise institution.

Every private school was required to allocate a certain amount to its development fund for the construction or maintenance of school facilities or procurement or upgrade of educational equipment. In the case of a private school that required reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of a private school that did not require reasonable returns, this amount shall be equal to 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, while the preferential tax treatment policies applicable to private schools requiring reasonable returns shall be formulated by the finance authority, taxation authority and other authorities under the State Council. To date, however, no regulations have been promulgated by the relevant authorities in this regard.

On November 7, 2016, the Standing Committee of the National People's Congress promulgated the Amended Private Education Law, which became effective on September 1, 2017.

Under the Amended Private Education Law, the term “reasonable return” is no longer used. Instead, a new classification system for private schools on the basis of whether they are established and operated for profit-making purposes is adopted. Under the new classification system, sponsors of private school may choose to establish non-profit or for-profit private schools at their own discretion, save for private schools providing compulsory education are not allowed to be registered as for-profit. The following table sets forth the key differences between for-profit private schools and non-profit private schools under this system.

	For-profit Private Schools	Non-profit Private Schools
Distribution of Operating Profit . . .	Sponsors are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law (《中華人民共和國公司法》) and other relevant laws and regulations.	Sponsors are not entitled to the distribution of profits or proceeds from the non-profit schools and all operation surplus of non-profit schools shall be used for the operation of the schools.
Fee Charging Regulation	Schools are entitled to set their own tuition and other miscellaneous fees without seeking prior approval from the relevant government authorities.	The collection of fees by schools shall be regulated in accordance with rules promulgated by governments at provincial level.

REGULATIONS

	For-profit Private Schools	Non-profit Private Schools
Tax Treatment	Taxation policies are still unclear as more specific provisions are yet to be introduced.	Same tax benefits as that applicable to public schools.
Land	The schools shall acquire the land use rights by purchasing them from the government.	The schools may acquire the land use rights in the form of allocation by the government as a preferential treatment.
Liquidation	The remaining assets of the schools after liquidation shall be distributed to the sponsors in accordance with the PRC Company Law.	The remaining assets of the schools after liquidation shall continue to be used for the operation of other non-profit private schools.
Government Support	The governments at or above the county level may support the schools by subscribing to their services, providing student loans and scholarships, and leasing or transferring unused state-owned assets to the schools.	The schools will also enjoy the support from the governments available to a for-profit private school. In addition, the governments may further support the schools in the form of government subsidies, bonus funds and incentives for donation.

On December 29, 2016, the State Council issued the Several Opinions of the State Council on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education (《國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見》), which calls for the ease of access to the operation of private schools and encourage social forces to enter into the education industry. The opinions also provide that each level of the government shall increase their support to the private schools in terms of financial investment, financial support, autonomy policies, preferential tax treatments, land policies, fee policies, autonomy operation, protection of the rights of teachers and students etc. Further, the opinions require each level of the government to improve local policies on government support to for-profit and non-profit private schools by such means as preferential tax treatments.

On December 30, 2016, the MOE, Ministry of Civil Affairs, the SAMR, the Ministry of Human Resources and Social Welfare and the State Commission Office of Public Sectors Reform jointly issued the Implementation Rules on the Classification Registration of Private Schools (《民辦學校分類登記實施細則》) to reflect the new classification system for private schools as set out in the Amended Private Education Law. Generally, if a private school established before promulgation of the Amended Private Education Law chooses to register as a non-profit school, it shall amend its articles of association, continue its operation and complete the new registration process. If such private school chooses to register as a for-profit school, it shall carry out financial liquidation, invite the relevant government authorities to clarify the ownership of such properties as lands, school building and the accumulated operating profits, pay relevant taxes and fees, apply for the new Permit for Operating Private School, re-register as a for-profit school and continue its operation.

REGULATIONS

On December 30, 2016, the MOE, the 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 (《營利性民辦學校監督管理實施細則》), which detail the supervision and administration of for-profit private schools regarding the establishment of schools, the organization structure, the education and teaching activities, finance and assets, the information publication, the change and termination of schools and the penalties for violation.

As of the date of this document, the majority of provincial governments in the PRC have promulgated their local rules which detail but for the most part repeat the provisions contained in the abovementioned state rules. However, some provinces, such as Beijing, Shanghai, Hubei and Hebei, may require the existing private schools to register either as for-profit or non-profit schools within a specific time period, while other provinces may not have a deadline. Other than certain of our kindergartens, and our compulsory-education schools (namely schools providing grade 1 to grade 9 formal education) that are required to be non-profit schools under the Amended Private Education Law, we intend to register all of our schools as for-profit private schools to the extent practicable under the relevant local rules and regulations.

Draft Amended Implementation Rules

In August 2018, the Ministry of Justice published on its official website the Draft Amended Implementation Rules to solicit comments from the public. The Draft Amended Implementation Rules provides that:

- private schools that provide pre-school education and school education for academic credentials, will be subject to approval by the government's education department at county level or above using standards applicable to public schools of the same level and category. Private training and education entities that provide after-school tutoring services for kindergarten kids or primary, middle and high school students will be subject to approval and strict supervision by the government's education department at or above county level;
- private schools providing online diploma-awarding education will need to hold both a private school operating permit and relevant internet operating permits. Private schools providing any online training and educational services, or technology companies providing any online platform or system supporting such online training and educations, will need to obtain relevant internet operation permits and complete record-filing with the government's education department or the government's human resources and social security department at provincial level. None of our schools provide online diploma-awarding education. The operating entity of our online education business holds a license for Internet information services, or ICP license; and
- any entities implementing group-based education are prohibited from gaining control over non-profit schools through mergers and acquisitions, franchise chains, and control agreements. Any agreements between a non-profit private school and its connected party that involve major interests or will be repeatedly performed in a long-term shall be reviewed and audited by relevant government

REGULATIONS

authorities in the aspect of necessity, legitimacy and compliance and shall be arm's-length transactions.

Sponsorship of Private Schools

Under the Law for Promoting Private Education (《中華人民共和國民辦教育促進法》) and the Implementation Rules for Promoting Private Education (《中華人民共和國民辦教育促進法實施條例》), entities and individuals that establish private schools are referred to as “sponsors.” As of May 31, 2020, New Oriental China was the sponsor of 96 schools.

Before September 1, 2017, the date the Amended Private Education Law became effective, the “sponsorship interest” that a sponsor holds in a private school is, for all practical purposes, substantially equivalent under PRC law and practice to the “equity interest” a shareholder holds in a company. Pursuant to the Implementation Rules for Promoting Private Education (《中華人民共和國民辦教育促進法實施條例》), a sponsor of a private school has the obligation to make capital contributions to the school in a timely manner. The contributed capital can be in the form of tangible or non-tangible assets such as materials in kind, land use rights or intellectual property rights. Pursuant to the Law for Promoting Private Education (《中華人民共和國民辦教育促進法》), the capital contributed by the sponsor becomes assets of the school and the school has independent legal person status. In addition, pursuant to the Law for Promoting Private Education (《中華人民共和國民辦教育促進法》) and the Implementation Rules for Promoting Private Education (《中華人民共和國民辦教育促進法實施條例》), the sponsor of a private school has the right to exercise ultimate control over the school. Specifically, the sponsor has control over the private school's constitutional documents and has the right to elect and replace the private school's decision making bodies, such as the school's board of directors, and therefore controls the private school's business and affairs.

As of September 1, 2017, we were not aware that PRC law provides that upon liquidation of a private school, the sponsor is legally restricted to receive only its invested capital and is not allowed to have other return. As of September 1, 2017, there was no national law that addresses this subject one way or the other. In the absence of a national law providing for the sponsor's rights upon liquidation of a private school, provincial regulations and interpretations are ambiguous and inconsistent on this subject. There were local regulations or interpretations that specifically provide that sponsors are entitled to private schools' residual assets pro rata based on their respective capital contribution. Nevertheless, there were also local regulations that are less clear in this regard.

Notwithstanding the legal uncertainties surrounding this issue, we believe that the potential risk that we will not receive all of the residual assets upon the liquidation of a school is immaterial. There were no capital contributions made by any PRC governmental authorities to our schools. Nor did any of our schools ever receive donations from any third parties, including PRC governmental authorities or any third party enterprises. Neither we nor our PRC Legal Adviser is aware of any case in China where a private school which has been solely funded by private sponsors without any government or donated funds became state property or was otherwise appropriated by a government authority upon liquidation without the prior consent of its sponsor. We historically have never liquidated any school that was profitable and we have no plan to do so in the future unless required by

REGULATIONS

the laws and regulations. If, for any reason, we would like to divest a profitable school, a commercially sensible way to do so is to sell the school, rather than to liquidate the school. In this situation, the sponsor is entitled to receive consideration for transferring sponsorship, which often exceeds its initial investment in the school.

Upon the effectiveness of the Amended Private Education Law in September 2017, sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law (《中華人民共和國公司法》) and other relevant laws and regulations, whereas sponsors of non-profit private schools are not entitled to the distribution of profits or proceed from the non-profit schools and all operation surplus of non-profit schools shall be used for the operation of the schools. The remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of other non-profit schools, whereas the remaining assets of for-profit private schools shall be distributed to the sponsors in accordance with the PRC Company Law (《中華人民共和國公司法》).

Regulations on After-School Tutoring

The State Council issued an Opinion on Supervising After-School Tutoring Institutions (《國務院辦公廳關於規範校外培訓機構發展的意見》) on August 22, 2018, or the State Council Circular 80, which provided various guidance on regulating after-school tutoring institutions that target primary and secondary school students. The State Council Circular 80 provides for the conditions for approval and registration of after-school tutoring institutions, and requires relevant governmental authorities to tighten regulations on after-school tutoring institutions. The State Council Circular 80 specifies operating requirements that after-school tutoring institutions must meet. Such requirements include, among other things, that after-school tutoring institutions (i) have a fixed training premise that conforms to specified safety criteria, with an average area per student of no less than three square meters during the applicable training period; (ii) comply with relevant fire safety, environmental protection, hygiene, food operation and other specified requirements; (iii) purchase personal safety insurance for students to reduce safety risks; and (iv) not hire teachers who are working concurrently in primary or secondary schools, and teachers tutoring in academic subjects such as English are required to have the corresponding teaching qualifications, though the State Council Circular 80 and other applicable laws and regulations are silent on the penalties that may be imposed on the training schools employing teachers without requisite teaching qualifications, as advised by our PRC Legal Adviser. After-school tutoring institutions are prohibited from carrying out training that goes beyond the State Curriculum Standards, training in advance of the corresponding school schedule and any training activities linked with student admission, nor shall they organize any level test, rank examination or competition on academic subjects for primary and secondary students. According to State Council Circular 80, extracurricular training institutions are also required to disclose and file relevant information, including their training content, schedule, targeted students and school timetable to the relevant education authority, and their training classes may not end later than 8:30 pm each day. After-school tutoring institutions can only collect in advance fees for courses spanning three months or shorter. Additionally, State Council Circular 80 requests that competent local authorities formulate relevant local standards for after-school tutoring institutions within their administrative area.

In order to implement the State Council Circular 80's prohibition against after-school tutoring beyond the state curriculum standards or ahead of the school schedule, on May 6, 2020, the general office of the MOE issued

REGULATIONS

the Negative List of Tutoring beyond State Curriculum Standards or ahead of School Schedule for Six Subjects at Compulsory Education Stage (Trial) (《義務教育六科超標超前培訓負面清單(試行)》) (the “**Tutoring Negative List**”). The Tutoring Negative List contains typical cases that could be determined as beyond state curriculum standards or ahead of school schedule. For example, the Tutoring Negative List provides that average density is a concept beyond the state curriculum standards for physics at compulsory education stage. The Tutoring Negative List aims to facilitate the implementation of the State Council Circular 80 and does not change the regulatory requirements set out there in. Based on the self-review, our Directors are of the view that we do not violate the requirements on tutoring content as set forth in the State Council Circular 80 and further elaborated on the Tutoring Negative List. Since the promulgation of the State Council Circular 80, our training schools have passed the annual inspections conducted by the education authorities and we have never been penalized for reason of tutoring content violating the State Council Circular 80 or the Tutoring Negative List.

Regulations on Kindergarten

On September 11, 1989, the MOE issued the Kindergarten Management Regulations (《幼兒園管理條例》). The Kindergarten Management Regulations (《幼兒園管理條例》) provide some basic principles for the establishment and management of kindergartens enrolling children aged three years or above and call for local regulations following such principles.

On November 7, 2018, the Central Committee of the Communist Party of China and State Council jointly promulgated Opinions of the Central Committee of the Communist Party of China and State Council on Deepening Reform in Preschool Education, or the “Preschool Opinions” (《中共中央國務院關於學前教育深化改革規範發展的若干意見》). The Preschool Opinions laid out overall requirements for the reform and development of preschool education and specified measures to be taken in eight areas: planning and distribution of kindergartens, expansion of preschool education resources, long-term funding mechanisms, teaching workforce, supervision systems, regulation of private kindergartens, childcare and teaching quality, and administrative systems. The Preschool Opinions aim to increase the accessibility of preschool education to children and see the pre-school gross enrollment rate reach 85% by 2020. The Preschool Opinions propose to build a preschool education system centered on kindergartens with universal access (including public kindergartens and private kindergartens with universal access) and expect the coverage of kindergartens with universal access amount to 80% by 2020. The Preschool Opinions demand the regulation on the development of private kindergartens, including that (i) non-state capital is prohibited from controlling non-profit kindergartens through M&A and contractual arrangements, and (ii) private kindergartens are prohibited from going public by themselves or packaged with other assets; and listed companies are not allowed to invest in for-profit kindergartens using financing from the capital market, or acquire for-profit kindergarten assets with stock or cash consideration.. It is uncertain whether it would become illegal to use contractual arrangements to consolidate operation results of kindergartens under the new regulation regime, and the above rules may materially affect our expansion and operation of kindergartens in the future. On September 7, 2020, the MOE published on its website the Draft Preschool Education Law to solicit for public comments. The Draft Preschool Education Law repeats the provisions restricting kindergartens from pursuing profits and sets forth the legal liabilities for violation of such provisions.

REGULATIONS

Regulations on Compulsory Education

The Compulsory Education Law of the PRC (《中華人民共和國義務教育法》) was promulgated by the NPC on April 12, 1986, and last amended on December 29, 2018. According to the Compulsory Education Law of the PRC (《中華人民共和國義務教育法》), a system of nine-year compulsory education, including six-year primary school and three-year middle school, was adopted.

Further, the MOE issued the Reform Guideline on the Curriculum System of Basic Education (Trial) (《基礎教育課程改革綱要(試行)》) on June 8, 2001, which became effective on the same day, pursuant to which schools providing basic education shall follow a “state-local-school” three-tier curriculum system. In other words, schools must follow the state curriculum standard for state courses, while the local educational authorities have the power to determine the curriculum standard for other courses, and schools may also develop curricula that are suitable for their specific needs.

According to the Interim Administrative Measures on the Compilation and Vetting of Primary and Secondary School Textbooks (《中小學教材編寫審定管理暫行辦法》) amended on November 10, 2015 by the MOE, textbooks must be vetted before being used in primary and secondary schools. According to the Interim Administrative Measures on the Selection of the Primary and Secondary School Textbooks (《中小學教科書選用管理暫行辦法》) promulgated on September 30, 2014, the MOE is responsible for publishing the catalog of textbooks for selection, and the provincial education authority is in charge of textbook selection within its relevant administrative jurisdiction. On December 16, 2019, the MOE issued the Administrative Measures on Primary and Secondary School Textbooks (《中小學教材管理辦法》), which detail the regulations on the authoring, vetting, publication and schools’ selection of primary and secondary school textbooks.

On June 23, 2019, the Central Committee of the Communist Party of China and the State Council jointly promulgated the Opinions on Deepening the Education Reform and Comprehensively Improving the Quality of Compulsory Education (《中共中央、國務院關於深化教育教學改革全面提高義務教育質量的意見》), which emphasizes, among other issues, that schools providing compulsory education shall not admit students based on the results of any examination or competition, training scores, or any certificate, and shall not choose students based on interview or evaluation. The admission process of private schools providing compulsory education will be brought into a unified administration system and take place at the same time as that of public schools; and if applications exceed the enrollment plan, applicants will be admitted randomly by lottery. The above opinions also underline that it is prohibited for schools to replace the national curriculums with local or their specific curriculums, or to use uncertified textbooks, and schools providing compulsory education are not allowed to introduce overseas curriculums or use overseas textbooks.

REGULATIONS RELATING TO ONLINE EDUCATION

Regulations on Online After-School Tutoring

The MOE, jointly with certain other PRC government authorities, promulgated the Implementation Opinion on Regulating Online After-school Tutoring Activities (《關於規範校外線上培訓的實施意見》) (the

REGULATIONS

“Online Tutoring Opinion”), which became effective on July 12, 2019. The (the “Online Tutoring Opinion”) restates certain requirements that apply to all after-school tutoring institutions and further provides that, among others: (1) online after-school tutoring institutions shall publicly make available their teachers’ name, photograph, teaching classes and teaching qualification number at prominent location on their home page, and shall publicly make available education background as well as working and education experience of foreign teachers; (2) information including licenses (including ICP), administration of funds, system of privacy and information safety, courses, course schedules, advertisement for student enrollment and teacher qualifications shall be filed with education administration authorities at provincial level before October 31, 2019 and education administration authorities at provincial level shall examine these materials and inspect the online tutoring institutions by December 2019, and education administration authorities at provincial level are authorized to issue detailed rules to implement the filing process; (3) the tutoring contents and data shall be kept for more than one year and the videos of live-streaming tutoring courses shall be kept for at least six months; (4) each class shall not last for more than 40 minutes and the break between two courses shall last for more than 10 minutes; (5) live-streaming tutoring activities for students in the compulsory education stage shall end before 9:00 p.m.; (6) online after-school tutoring institutions shall implement the internet safety procedures and establish privacy protection system; (7) fee policies, standards and refund policies shall be made public at prominent location on the online tutoring platform, and the advance payment shall not be used for investing purpose and the scale of advance payment shall fit the tutoring capability; and (8) when charging by training hours, tutoring institutions shall not collect pre-paid tutoring fees for more than 60 training hours; when charging by training cycles, tutoring institutions shall not collect pre-paid tutoring fees for a training period spanning more than three months. Koolearn operates our online education business and is thus governed by the Online Tutoring Opinion. Since the promulgation of the Online Tutoring Opinion Koolearn did not use advance payments received from students for “investing purposes” and has consistently maintained sufficient cash or cash equivalent in its account to sustain its daily operation and cover any potential refund of tuitions. Therefore, our PRC Legal Adviser is of the view that Koolearn’s investments comply with the Online Tutoring Opinion.

Regulations on Education APPs

The Opinion on Guiding and Regulating the Healthy Development of Online Education Applications (《關於引導規範教育移動互聯網應用有序健康發展的意見》), issued by the MOE and seven other authorities on August 10, 2019, restates certain requirements that apply to online education application providers, as stated above, and further provides that: (1) online after-school tutoring institutions shall examine the teaching qualifications, education background and capability of their foreign teachers; (2) online education applications providers shall file information about themselves as well as their apps with education administration authorities at provincial level, and the MOE will promulgate detailed filing rules to guide such filing and make such filing results publicly available on official website; (3) online education applications providers whose apps mainly face juveniles shall limit the length of using time, specify age group of target users and strictly review the content of the apps, and the collection of personal information of juveniles shall be permitted by the custodian of such juveniles; (4) online education application providers shall build up data security systems covering the collection, storage, transfer, using and other respects of personal information, and shall set up a name verification system; (5) education authorities at provincial level shall set up negative lists of the online education apps. In November 2019, the MOE issued implementation rules with respect to the filings of online education apps. We have made filings to comply with the Online Tutoring Opinion and the Opinion on Guiding and Regulating the

REGULATIONS

Healthy Development of Online Education Applications (《關於引導規範教育移動互聯網應用有序健康發展的意見》).

Regulations on Value-added Telecommunications Services

Under the PRC Telecommunications Regulations (《中華人民共和國電信條例》), promulgated by the State Council and most recently amended in February 2016, a telecommunication services provider in China must obtain an operating license from the MIIT, or its provincial authorities. The PRC Telecommunications Regulations (《中華人民共和國電信條例》) categorize all telecommunication services in China as either basic telecommunications business or value-added telecommunications business. Internet information service is a typical value-added telecommunications business.

As a subsector of the value-added telecommunications business, Internet information services are also regulated by the Administrative Measures on Internet Information Services (《互聯網信息服務管理辦法》) promulgated by the State Council, or the Internet Information Measures. The Internet Information Measures require that commercial Internet content providers, or ICP providers, obtain a license for Internet information services, or ICP license, from the appropriate telecommunications authorities in order to carry on any commercial Internet information services in the PRC. ICP providers shall display their ICP license number in a conspicuous location on their home page. In addition, the Internet Information Measures also provide that ICP providers that operate in sensitive and strategic sectors, including news, publishing, education, health care, medicine and medical devices, must obtain additional approvals from the relevant authorities in charge of those sectors as well. New Oriental China and Beijing Xuncheng have obtained the ICP licenses.

Regulations on Internet Culture Activities

The Ministry of Culture of the PRC promulgated the Internet Culture Administration Tentative Measures (《互聯網文化管理暫行規定》), or the Internet Culture Measures, on May 10, 2003, which were last amended on December 15, 2017. The Internet Culture Measures require ICP operators engaging in Internet culture activities to obtain an Internet culture business operations license from the Ministry of Culture in accordance with the Internet Culture Measures. The term “Internet culture activities” includes, among other things, acts of online dissemination of Internet cultural products, such as audio-visual products, games, performances of plays or programs, works of art and cartoons, and the production, reproduction, importation, sale (wholesale or retail), leasing and broadcasting of Internet cultural products.

On May 14, 2019, the General Office of the Ministry of Culture and Tourism promulgated the Notice on Adjusting the Scope of Internet Culture Business Operating License and Further Standardizing the Approval Work (《文化和旅遊部辦公廳關於調整〈網絡文化經營許可證〉審批範圍進一步規範審批工作的通知》), which provides that online music, online shows and plays, online performances, online works of art, and online cartoons, displays and competitions are the activities that fall in the scope of Internet Culture Business Operating License and further clarifies that educational live streaming activities are not online performances. Therefore, we are not required to obtain the Internet Culture Operation License for our online tutoring business.

REGULATIONS

Regulation on Production and Operation of Radio and Television Programs

The Administrative Measures on the Production and Operation of Radio and Television Programs (《廣播電視節目製作經營管理規定》), or the Radio and TV Programs Measures, promulgated by the State Administration of Press Publication Radio Film and Television, or the SAPPRFT (currently known as National Radio and Television Administration), regulates institutions that produce and distribute radio and television programs or for the production of radio and television programs like programs with a special topic, column programs, variety shows, animated cartoons, radio plays and television dramas and for activities like transactions and agency transactions of program copyrights. Pursuant to the Radio and TV Programs Measures, any entity that intends to produce or operate radio or television programs must first obtain the Permit for Production and Operation of Radio and TV Programs from the SAPPRFT or its local branches. However, due to the ambiguity of the definition of “Radio and Television Programs”, there is uncertainty as to whether our online courses fall within such definition. On May 4, 2018, our PRC Legal Adviser, Tian Yuan Law Firm, consulted with the Beijing Press, Publication, Radio and Television Bureau, which confirmed that online education is not subject to the Permit for Production and Operation of Radio and TV Programs. As advised by our PRC Legal Adviser, there has been no substantial change in the laws and regulations on the Permit for Production and operation of Radio and TV Programs since the consultation in 2018.

Regulation Related to Online Transmission of Audio-Visual Programs

To regulate the provision of audio-visual program services to the public via the internet, including through mobile networks, within the territory of the PRC, the SAPPRFT and the MIIT jointly promulgated the Administrative Provisions on Internet Audio-Visual Program Service (《互聯網視聽節目服務管理規定》), or the Audio- Visual Program Provisions, on December 20, 2007, which came into effect on January 31, 2008 and was last amended on August 28, 2015. Under the Audio-Visual Program Provisions, “online audio-visual program services” is defined as activities of producing, redacting and integrating audio-visual programs, providing them to the general public via internet, and providing service for other people to upload and transmit audio-visual programs, and providers of online audio-visual program services are required to obtain a License for Online Transmission of Audio-Visual Programs issued by the SAPPRFT, or complete certain registration procedures with the SAPPRFT. In general, providers of online audiovisual program services must be either state-owned or state-controlled entities, and the business to be carried out by such providers must satisfy the overall planning and guidance catalog for internet audiovisual program service determined by the SAPPRFT. However, due to ambiguity of the definition of “Audio-visual Programs”, there is uncertainty as to whether our online courses fall within the definition of “Audio-visual Programs” and whether we are required to obtain the License for Online Transmission of Audio-Visual Programs. On January 20, 2020, in the Q&A section of its website, the Beijing Radio and Television Bureau confirmed that online education is not subject to the License for Online Transmission of Audio-Visual Programs.

REGULATION RELATING TO TEACHERS

The State Council Circular 80 and the Online Tutoring Opinion require teachers of after-school tutoring institutions to apply for teacher licenses, if they teach certain academic subjects in the primary and secondary

REGULATIONS

education stage. To implement the State Council Circular 80, the general office of the MOE issued a notice on August 31, 2018, which requires teachers without the requisite teacher license to register for teacher license examinations in the second half of 2018 and, if fails to obtain the teacher license after taking examinations, to cease teaching the academic subjects that require teacher licenses. The Online Tutoring Opinion also grants a grace period until June 2020 for existing teachers without requisite teacher licenses to apply for teacher licenses. After the promulgation of the State Council Circular 80 and the Online Tutoring Opinion, we have urged all teachers without teacher licenses to register for teacher license examinations. All K-12 tutoring teachers without the requisite teacher license have been requested to sign an undertaking letter to obtain teacher license. We offer training and other assistances to our teachers to help them pass the teacher license examinations, and impose penalties on teachers failing to pass the teacher license examinations. As of the Latest Practicable Date, the vast majority of our teachers teaching academic subjects in the primary and secondary education stage have obtained teacher licenses. However, there are still a small number of our teachers that currently do not have teacher licenses due to various reasons, such as the time gap between the recruitment and the newly-recruited teachers taking the exam and ultimately obtaining the teacher license, and the cancellation of teacher license examinations in the first half of 2020 due to COVID-19.

As advised by our PRC Legal Adviser, the State Council Circular 80, the Online Tutoring Opinion and other relevant PRC laws and regulations are silent on the penalty that may be imposed on an after-school tutoring institution for employing teachers without teacher licenses. As of the Latest Practicable Date, we were not required by any education authority to terminate the employment of any after-school tutoring institution teacher or otherwise be penalized due to such teacher's lack of teacher license. The PRC regulatory authorities have recently adopted several policies, which we believe is favorable to us in the matter of teacher licenses. For example, the Notice of the Phased Measures in Respond to the Impact of COVID-19 for Certain Professional Qualifications to "Start Work Before Obtaining Qualifications" (《關於應對新冠肺炎疫情影響實施部分職業資格“先上崗、再考證”階段性措施的通知》) issued on April 21, 2020 expressly allows teachers at secondary and primary schools, kindergartens and vocational schools to start teaching before obtaining their teacher licenses. The Reform Implementation Plan on the Exemption of Education Masters Graduates and Teacher Training Students from Obtaining Secondary and Primary School Teachers Qualification (《教育類研究生和公費師範生免試認定中小學教師資格改革實施方案》) issued on September 4, 2020 puts forward the reform that certain types of graduates could apply for teacher licenses without taking examinations. We believe these policies would improve our compliances in respect of teacher licenses.

We will continue to urge, incentivize and support our teachers to take the examinations and obtain teacher licenses. In addition, as a leading player in the market, we believe that we also have the advantage over our competitors in terms of attracting teachers with teacher licenses or who are more capable of passing the teacher license examination. Based on the above, our Directors are of the view that the requirement of teacher license for after-school tutoring teachers introduced by the State Council Circular 80 and the Online Tutoring Opinion does not have any material adverse impact on our operation.

REGULATIONS

Regulation Related to Internet Information Security and Privacy Protection

Pursuant to the PRC Cyber Security Law (《中華人民共和國網絡安全法》) issued by the SCNPC on November 7, 2016, effective as of June 1, 2017, “personal information” refers to all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify individuals’ personal information including but not limited to: individuals’ names, dates of birth, ID numbers, biologically identified personal information, addresses and telephone numbers, etc. The PRC Cyber Security Law (《中華人民共和國網絡安全法》) also provides that: (i) to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered; and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users; (iii) network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected. However, if the information has been processed and cannot be recovered and thus it is impossible to match such information with specific persons, such circumstance is an exception.

REGULATIONS ON PUBLISHING AND DISTRIBUTION OF PUBLICATIONS

The State Council promulgated the Administrative Regulations on Publication (《出版管理條例》), or the Publication Regulations, which was most recently amended on February 6, 2016. The Publication Regulations apply to publication activities, i.e., the publishing, printing, copying, importation or distribution of publications, including books, newspapers, periodicals, audio and video products and electronic publications, each of which requires approval from the relevant publication administrative authorities. According to the Publication Regulations, any entity engaging in the activities of publishing, printing, copying, importation or distribution of publications, shall obtain relevant permits of publishing, printing, copying, importation or distribution of publications. We do not engage in publishing business. Instead, Beijing New Oriental Dogwood Cultural Communications Co., Ltd., a subsidiary of New Oriental China, has been cooperating with qualified PRC publishing companies to publish our in-house developed teaching materials and other content.

According to Measures for the Administration of Internal Informative Publications (《內部資料性出版物管理辦法》), the editing and printing of internal informative publications is subject to the internal informative publications printing permit, though the permit of publishing is not required. Internal informative publications are defined as publications used for internal information communication and work guidance purpose and are not for sale. Measures for the Administration of Internal Informative Publications (《內部資料性出版物管理辦法》) particularly clarify that textbooks and ancillary teaching materials should be published by publishing companies and are not internal informative publications. New Oriental China and its schools and subsidiaries engage in printing and providing teaching handouts and other materials to our students. Under the new regulation, it is uncertain whether printing and providing teaching handouts and other materials to our students would be deemed

REGULATIONS

publishing activities. If the NPPA or its local branches or other competent authorities deem such activities as publishing, we may become subject to significant penalties, fines, legal sanctions or an order suspending our printing and providing of teaching handouts and other materials to our students.

On May 31, 2016, the SAPPRFT and the Ministry of Commerce jointly promulgated the Provisions on the Administration of the Publication Market (《出版物市場管理規定》), which govern the wholesale, retail, lease and exhibition of publications. Pursuant to such provisions, institutions carrying on the wholesale of publications shall obtain approval and apply for the Permit for Operating Publications from the publication administration authorities at provincial level, while institutions carrying on the retail of publications shall get approval and apply for the Permit for Operating Publications from the publication administration authorities at county level.

The subsidiaries of New Oriental China engaged in the wholesale and retail distribution of books, periodicals, audio-visual products and electronic publications have obtained the relevant Permits for Operating Publications Business. During the term of the above-mentioned permits or licenses, NPPA or its local counterparts or other competent authorities may conduct annual or random examination or inspection from time to time to ascertain their compliance with applicable regulations and may require for change or renewal of such permits or licenses. If the subsidiaries of New Oriental China engaged in the wholesale and retail distribution of books, periodicals, audio-visual products and electronic publications are not able to pass the subsequent inspection or examination, they may not be able to maintain such permits or licenses necessary for their business.

REGULATIONS ON TOURISM

Tourism Law of the PRC (《中華人民共和國旅遊法》), which was promulgated by the Standing Committee of the NPC and most recently amended on October 26, 2018, provides that, among other things, to engage in the businesses of outbound tourism, a travel agency shall obtain corresponding business permit, and the specific conditions shall be provided for by the State Council and that when organizing an outbound touring group, or organizing or receiving an inbound touring group, a travel agency shall, in accordance with the relevant provisions, arrange for a tour leader or tour guide to accompany the touring group in the whole tour. Regulations on Travel Agencies (《旅行社條例》) promulgated by the State Council, revised on March 1, 2017, and the implementation rules of Regulations on Travel Agencies, provide that, among other things, travel agent shall mean any entity that engages in the business of attracting, organizing, and receiving tourists, providing tourism services for tourists and operating domestic, outbound or border tourism; the aforementioned business shall include but not limit to arranging for transport services, arranging for accommodation services, providing services for tour guides or team leaders, providing services of tourism consultation and tourism activities design. According to the Regulations on Travel Agencies (《旅行社條例》) and its implementation rules, any tourism agent that engages in the outbound tourism shall apply for a permit to engage in the outbound tourism from the administrative department of tourism under the State Council, the governments of provinces, autonomous regions, or municipalities.

The touring group for the overseas study tours participated in by primary and middle school students shall be organized by a qualified travel agent. Beijing New Oriental Walkite International Travel Co., Ltd, a subsidiary that engages in the businesses of outbound tourism has obtained the aforementioned permit.

REGULATIONS

Guidelines for Overseas Study Tour participated by Primary and Middle School Students (Trial)

The MOE promulgated the Guidelines for Overseas Study Tour participated by Primary and Middle School Students (Trial) (《中小學學生赴境外研學旅行活動指南(試行)》) in July 2014. Under such guidelines, overseas study tours participated in by primary and middle school students means, by adapting to the characteristics of primary and middle school students and the educational needs, programs that organize primary and middle school students to go overseas to learn foreign languages and other short-term curriculum, perform art shows, compete in contests, visit schools, attend summer/winter school programs, or take part in other activities that help students expand their horizon and promote enrichment and enhancement, in the manner of group travel and group accommodation during the academic semesters or vacations. Overseas study tours attended by primary and middle school students shall follow the principles of safety, civility and efficiency. The schedule for study, from the perspective of both the content and the duration, shall be no less than 1/2 of the total schedule. The organizer shall choose legitimate and qualified cooperation institutions, and stress the importance of safe education, and shall appoint a guiding teacher for each group. The organizer shall apply the rules of cost accounting, notify the students and their supervisors of the composition of the fees and expenses, and enter into an agreement as required by law. The school and its staff shall not seek any economic benefit from organizing its own students to attend an Overseas Study Tour.

REGULATIONS RELATING TO PRIVATE EDUCATION FEES

On August 17, 2020, MOE and other four departments jointly promulgated the Opinions on Further Strengthening and Regulating the Administration of Education Fees (《關於進一步加強和規範教育收費管理的意見》), or the Education Fees Opinions, which reiterate the previous provision that the fee level of for-profit private schools is open for market adjustment and can be determined by for-profit private schools at their own discretion, while the fee-collecting regulatory policies for non-profit private schools shall be formulated by the provincial governments. The Education Fees Opinions further clarify that private schools established prior to November 7, 2016 shall be regulated in the same way as non-profit private schools in terms of fee-collecting policies before they have completed the classification registration procedures. Besides the fee-collecting policies, the Education Fees Opinions also contain provisions regarding the management and use of education fees. The Education Fees Opinions require that all education fee revenue of a private school shall be deposited into a bank account filed with education authorities and be used mainly for education activities, the improvement of school conditions, faculty and staff's compensation and the appropriation of development fund. The Education Fees Opinions propose to explore a special audit system for school education fees, in particular for non-profit private schools. The Education Fees Opinions underline that sponsors of non-profit private schools shall not obtain proceeds from schools' operating profits, distribute the operating surplus or residual assets, or transfer operating profits through related-party transactions or related parties.

REGULATIONS RELATING TO FOREIGN INVESTMENT

Foreign Investment Access Special Management Measures (Negative List) (2020 Version)

Investment activities in the PRC by foreign investors are governed by the Guiding Foreign Investment Direction (《指導外商投資方向規定》), which was promulgated by the State Council in February 2002 and came

REGULATIONS

into effect in April 2002, and the Special Administrative Measures for the Access of Foreign Investment (Negative List) (《外商投資准入特別管理措施（負面清單）》), or the 2020 Negative List, which was promulgated by the Ministry of Commerce and National Development and Reform Commission in June 2020 and came into effect in July 2020. The 2020 Negative List sets out the restrictive measures in a unified manner, such as the requirements on shareholding percentages and management, for the access of foreign investments, and the industries that are prohibited for foreign investment. The 2020 Negative List covers 12 industries, and any field not falling in the Negative List shall be administered under the principle of equal treatment to domestic and foreign investment. Under such 2020 Negative List, pre-school education, senior high school education in grades 10 to 12, publishing and value-added telecommunications services are in a restricted industry, meaning foreign educational organizations with relevant qualifications and experience and Chinese educational organizations are only allowed to operate pre-school education, senior high schools, publishing and value-added telecommunication services in cooperative ways by the form of a cooperative joint venture in the PRC. Foreign investment is banned from compulsory education, which means grades 1 to 9. After-school tutoring services and training services which do not grant certificates or diplomas and non-academic vocational training institutions are not listed on the 2020 Negative List.

The PRC Foreign Investment Law and Its Implementation Rules

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law (《中華人民共和國外商投資法》), which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), the Sino-foreign Cooperative Joint Venture Enterprise Law (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-invested Enterprise Law (《中華人民共和國外資企業法》), together with their implementation rules and ancillary regulations. The existing foreign-invested enterprises established prior to the implementation of the Foreign Investment Law may keep their corporate forms within five years. Pursuant to the Foreign Investment Law (《中華人民共和國外商投資法》), “foreign investors” means natural person, enterprise, or other organization of a foreign country, “foreign-invested enterprises” (FIEs) means any enterprise established under PRC law that is wholly or partially invested by foreign investors and “foreign investment” means any foreign investor's direct or indirect investment in mainland China, including: (i) establishing FIEs in mainland China either individually or jointly with other investors; (ii) obtaining stock shares, stock equity, property shares, other similar interests in Chinese domestic enterprises; (iii) investing in new projects in mainland China either individually or jointly with other investors; and (iv) making investment through other means provided by laws, administrative regulations, or State Council provisions.

The Foreign Investment Law (《中華人民共和國外商投資法》) stipulates that China implements the management system of pre-establishment national treatment plus a negative list to foreign investment and the government generally will not expropriate foreign investment, except under special circumstances, in which case it will provide fair and reasonable compensation to foreign investors. Foreign investors are barred from investing in prohibited industries on the negative list and must comply with the specified requirements when investing in restricted industries on that list. When a license is required to enter a certain industry, the foreign investor must apply for one, and the government must treat the application the same as one by a domestic enterprise, except where laws or regulations provide otherwise. In addition, foreign investors or FIEs are required to file information reports and foreign investment shall be subject to the national security review.

REGULATIONS

On December 26, 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law (《中華人民共和國外商投資法實施條例》) with effect from January 1, 2020 to provide implementing measures and detailed rules to ensure the effective implementation of the Foreign Investment Law (《中華人民共和國外商投資法》).

Restrictions on Foreign Investment in Education

Pursuant to the 2020 Negative List, foreign investment in pre-school education and senior high school education in grades 10 to 12 is restricted, meaning that it shall only take the form of Sino-foreign cooperative schools and the domestic party shall play a dominant role. A dominant role requires that (i) the school's principal or chief executive must be a PRC national, and (ii) the school's governing body (including the board of directors, executive council or joint administration committee) must consist of a majority of representatives from the domestic party. Training business is not on the 2020 Negative List.

Sino-foreign cooperation in operating schools is specifically governed by (i) the Regulation on Operating Sino-foreign Cooperative Schools of the PRC (《中華人民共和國中外合作辦學條例》), which was promulgated by the State Council in March 2003 and last amended in March 2019 respectively, and (ii) the Implementing Measures for the Regulations on Operating Sino-foreign Cooperative Schools of the PRC (《中華人民共和國中外合作辦學條例實施辦法》), which was issued by the MOE in June 2004. Pursuant to these rules, "Sino-foreign cooperative schools" are educational institutions established in China jointly by foreign parties and domestic parties targeting primarily students of PRC nationality. Both the foreign and domestic parties of a Sino-foreign cooperative school shall be educational institutions with the commensurate qualification for running schools and a good track record in providing high quality education. However, no implementing measures or specific guidance has been released as to what specific criteria must be met by the foreign party to demonstrate to the relevant authority that it meets the qualification requirements. The establishment of a Sino-foreign cooperative school shall be approved by the relevant education authority or human resources and social security authority.

On June 18, 2012, the MOE issued the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital into the Field of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》), with the aim of encouraging private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital contribution in a Sino-foreign cooperative school shall be less than 50%.

Restrictions on Foreign Investment in Publishing

In July 2005, the Ministry of Culture, the State Administration of Radio, Film and Television, the NPPA, the NDRC, and Ministry of Commerce jointly formulated the Several Opinions on Drawing Foreign Investment into the Cultural Sector (《關於文化領域引進外資的若干意見》), pursuant to which foreign investors are prohibited from engaging in business such as the publication of books, audio-visual products and electronic publications, and internet publishing. The 2020 Negative List also lists foreign investments in the publication of books, audio-visual products and electronic publications and in the provision of internet publishing services as a prohibited category.

REGULATIONS

The wholesale and retail of publications is not listed in the 2020 Negative List, indicating that the wholesale and retail of publications is a permitted area where foreign investment can enter. In particular, the Provisions on the Administration of the Publication Market (《出版物市場管理規定》) clearly states that PRC allows foreign-invested enterprises to carry out the publication distribution (including wholesale and retail) business.

Restrictions on Foreign Investments in Value-added Telecommunications Services

The Regulations on Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》), or the FITE Regulations, which took effect on January 1, 2002 and last amended on February 6, 2016, are the key regulations for foreign direct investment in telecommunications companies in China. The FITE Regulations stipulate that the foreign investor of a telecommunications enterprise is prohibited from holding more than 50% of the equity interest in a foreign-invested enterprise that provides value-added telecommunications services. In addition, the main foreign investor who invests in a value-added telecommunications enterprise in China must demonstrate a positive track record and experience in providing such services. Moreover, foreign investors that meet these qualification requirements that intend to invest in or establish a value-added telecommunications enterprise operating the value-added telecommunications business must obtain approvals from the MIIT and the Ministry of Commerce, or their authorized local counterparts, which retain considerable discretion in granting approvals.

On July 13, 2006, the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services (《信息產業部關於加強外商投資經營增值電信業務管理的通知》), or the MIIT Circular 2006, which requires that (i) foreign investors can only operate a telecommunications business in China through establishing a telecommunications enterprise with a valid telecommunications business operation license; (ii) domestic license holders are prohibited from leasing, transferring or selling telecommunications business operation licenses to foreign investors in any form, or providing any resource, sites or facilities to foreign investors to facilitate the unlicensed operation of telecommunications business in China; (iii) value-added telecommunications services providers or their shareholders must directly own the domain names and registered trademarks they use in their daily operations; (iv) each value-added telecommunications services provider must have the necessary facilities for its approved business operations and maintain such facilities in the geographic regions covered by its license; and (v) all value-added telecommunications services providers should improve network and information security, enact relevant information safety administration regulations and set up emergency plans to ensure network and information safety. The provincial communications administration bureaus, as local authorities in charge of regulating telecommunications services, may revoke the value-added telecommunications business operation licenses of those who fail to comply with the above requirements or fail to rectify such noncompliance within specified time limits. Due to the lack of any additional interpretation from the regulatory authorities, it remains unclear what impact MIIT Circular 2006 will have on us or the other PRC internet companies with similar corporate structures and contractual arrangements.

REGULATIONS ON COPYRIGHT AND TRADEMARK PROTECTION




China has adopted legislation governing intellectual property rights, including copyrights, trademarks and domain names. China is a signatory to the main international conventions on intellectual property rights and

REGULATIONS

became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in 2001.

Copyright. The National People's Congress amended the Copyright Law (《中華人民共和國著作權法》) 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 Centre.

To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the National Copyright Administration and the MIIT jointly promulgated the Administrative Measures for Copyright Protection Related to the Internet (《互聯網著作權行政保護辦法》).

Trademark. The PRC Trademark Law, most recently revised in April 2019, protects the proprietary rights to registered trademarks. The Trademark Office under the 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. We have registered certain trademarks and logos, including “New Oriental” and “Pop Kids,” with the Trademark Office and are in the process of registering additional marks. 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. In July 2014, the SAMR released Provisions on the Recognition and Protection of Well-Known Trademarks. According to these provisions, well-known trademarks shall be recognized on a case-by-case basis, and be subject to the principle of passive protection. Our trademarks “,” “,” and “” have been recognized as “well-known trademarks” in civil action adjudicated and/or administrative determination in China.

Domain names. Pursuant to the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》), which was promulgated by the Ministry of Industry and Information Technology of the PRC on August 24, 2017 with effect from November 1, 2017, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer and the principle of “first come, first serve” is followed for the domain name registration service. Domain name applicants shall provide true, accurate and complete identification of the domain name holder as requested by the domain name registration service provider.

REGULATIONS ON FOREIGN CURRENCY EXCHANGE

Pursuant to applicable PRC regulations on foreign currency exchange, RMB is freely convertible to current account items, such as trade-related receipts and payments, interest and dividend. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from SAFE or its local counterpart or prior registration with banks for conversion of RMB into a foreign currency.

Domestic companies or individuals can repatriate payments received from abroad in foreign currencies or deposit those payments abroad. Foreign-invested enterprises may retain foreign exchange in accounts with

REGULATIONS

designated foreign exchange banks. Foreign exchange on the current account and capital account can be either retained or sold to financial institutions that have foreign exchange settlement or sales business based on the need of the enterprise without prior approval from SAFE, subject to certain restrictions.

SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》), or SAFE Circular 142, to regulate the conversion by a foreign-invested company of its capital contribution in foreign currency into RMB. The circular requires that the paid-in capital of a foreign-invested company settled in RMB converted from foreign currencies shall be used only for purposes within the business scope as approved by the authorities in charge of foreign investment or by other competent authorities and as registered with the local branch of Administration for Industries and Commerce and, unless set forth in the business scope or in PRC regulations, may not be used for equity investments within the PRC. In addition, SAFE has strengthened its oversight of the flow and use of the paid-in capital of a foreign-invested company settled in RMB converted from foreign currencies. The use of such RMB paid-in capital may not be changed without SAFE's approval. Violations of Circular 142 will result in severe monetary or other penalties.

SAFE promulgated SAFE Circular 19, effective in June 2015 to abolish SAFE Circular 142. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third-party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be used, directly or indirectly, for purposes beyond its business scope. Therefore, foreign-invested companies' applications to make equity investment with their capital were often rejected on the ground of exceeding the business scope. SAFE promulgated SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the limitation on the use of RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company from prohibiting using such capital to issue RMB entrusted loans to prohibiting using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in China. On October 23, 2019, the SAFE promulgated SAFE Circular 28, which, among other things, allows all foreign-invested companies to use RMB converted from foreign currency-denominated capital for equity investments in China, for so long as there is a truthful equity investment, such equity investment does not violate applicable laws, and such equity investment complies with the negative list on foreign investment. The SAFE Circular 28 aims to lift the restriction on foreign-invested companies' equity investment with capital on the ground of business scope implied by SAFE Circular 19.

REGULATIONS

REGULATIONS ON FOREIGN EXCHANGE REGISTRATION OF OFFSHORE INVESTMENT BY PRC RESIDENTS

Pursuant to the Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Round-Trip Investment Conducted by Domestic Residents through Special-Purpose Companies (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37, effective in July 2014 and repealed the previous SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 75 on the same date, a PRC Resident, including both PRC domestic institutions and PRC domestic individual residents, shall register with the local branch of SAFE before it establishes or controls an company outside of China with the domestic or overseas assets or equity they legally hold for the purpose of investment and financing and conducting roundtrip investment in China. Such a company located outside of China is referred to as an offshore special purpose vehicle.

Under SAFE Circular 37, failure to comply with the registration procedures set forth above may result in the penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

In June 2015, SAFE promulgated SAFE Circular 13, according to which, in order to simplify the procedures of performing the foreign exchange control policy of direct investment, the registration authorities under the SAFE foreign exchange control policies, including the registration of PRC residents under SAFE Circular 37 change from local SAFE branches to local banks authorized by SAFE and SAFE will strengthen the training and supervision for banks in performing the foreign exchange control policy of direct investment. Thus, according to SAFE Circular 13, the registration of PRC residents under SAFE Circular 37 shall be conducted with local banks authorized by SAFE.

Our beneficial owners immediately before our initial public offering who are PRC residents had registered with the local branch of SAFE prior to our initial public offering in 2006.

REGULATIONS ON DIVIDEND DISTRIBUTION

The principal regulations governing dividend distributions by wholly foreign-owned enterprises and Sino-foreign equity joint ventures include:

- Foreign Investment Law (《中華人民共和國外商投資法》); and
- The Implementation Rules of Foreign Investment Law (《中華人民共和國外商投資法實施條例》).

As these regulations were newly adopted and replaced the Sino-foreign Equity Joint Venture Enterprise Law (《中華人民共和國中外合資經營企業法》), Wholly Foreign Owned Enterprise Law (《中華人民共

REGULATIONS

和國外資企業法》) and all implementing rules thereunder, these regulations do not provide specific dividend distribution rules for foreign invested enterprises. However, they provide that after the conversion from a wholly foreign-owned enterprise or sino-foreign equity joint venture to a foreign invested enterprise under the Foreign Investment Law (《中華人民共和國外商投資法》), distribution method of gains agreed in the joint venture agreements may continue to apply.

REGULATIONS ON LABOR

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》), the PRC Labor Contract Law (《中華人民共和國勞動合同法》) and its Implementing Regulations of the Employment Contracts Law (《中華人民共和國勞動合同法實施條例》), labor contracts in written form shall be executed to establish labor relationships between employers and employees. Wages cannot be lower than local minimum wage. The employer must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions meeting State rules and standards, and carry out regular health examinations of employees engaged in hazardous occupations.

The Notice of Issues Related to the Management of Employment of Foreigners (《關於加強外國人在中國就業管理工作有關問題的通知》) in China provides that, among other things, the Ministry of Labor and Social Security should cooperate with Ministry of Public Security to carry out regular and irregular investigation on the entities that employ relatively large number of foreigners about their employment of foreigners.

According to the Circular on the Comprehensive Implementation of the Permit System for Foreigners to Work in China (《關於全面實施外國人來華工作許可制度的通知》) promulgated by the State Administration of Foreign Experts Affairs, the Ministry of Human Resources and Social Welfare, the Ministry of Foreign Affairs, and the Ministry of Public Security on March 28, 2017, from April 1, 2017, a foreigner who is approved to work in China will be issued a Permit to Working in China. According to the circular, new and detailed regulation of the application and approval process of Permit to Working in China is to be promulgated shortly. As of the date of this document, we are not aware of any new and detailed regulation set up regarding application and approval of the Permit to Working in China.

If the employment of foreigners is not in compliance with the above relevant regulations, the employer may become subject to penalties, fines or an order to terminate such employment and to bear all the expenses and costs arising from the repatriation of such foreigner.

REGULATIONS ON EMPLOYEE SHARE INCENTIVE AWARDS GRANTED BY LISTED COMPANIES

According to a series of notices concerning individual income tax on earnings from employee share incentive awards, issued by the MOF and the SAT, companies that implement employee stock ownership programs shall file the employee stock ownership plans and other relevant documents with the local tax authorities having jurisdiction over such companies before implementing such plans, and shall file share option exercise notices and other relevant documents with local tax authorities before exercise by their employees of any share options, and clarify whether the shares issuable under the employee share options referenced in the notice are shares of publicly listed companies.

REGULATIONS

The SAFE issued the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in a Stock Incentive Plan of an Overseas Publicly-Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》), or SAFE Circular 7, in February 2012, pursuant to which if “domestic individuals” (meaning both PRC residents and non-PRC residents who reside in China for a continuous period of not less than one year, excluding the foreign diplomatic personnel and representatives of international organizations) participate in any stock incentive plan of an overseas listed company, a qualified PRC domestic agent, which could be the PRC subsidiaries of such overseas listed company, shall, among other things, file, on behalf of such individuals, an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the stock purchase or stock option exercise. Such PRC individuals’ foreign exchange income received from the sale of stocks and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in China opened and managed by the PRC domestic agent before distribution to such individuals. In addition, such domestic individuals must also retain an overseas entrusted institution to handle matters in connection with the exercise of their stock options and their purchase and sale of stock. The PRC domestic agent also needs to update registration with the local branches of SAFE within three months after the overseas-listed company materially changes its stock incentive plan or make any new stock incentive plans.

According to SAFE Circular 7, from time to time, we need to make applications or update our registration with local branches of SAFE on behalf of our employees who are affected by our new share incentive plan or material changes in our current share incentive plan. However, we may not always be able to make applications or update our registration on behalf of our employees who hold our restricted shares or other types of share incentive awards in compliance with SAFE Circular 7, nor can we ensure you that such applications or update of registration will be successful. If we or the participants of our share incentive plans who are PRC citizens fail to comply with SAFE Circular 7, we and/or such participants of our share incentive plans may be subject to fines and legal sanctions, there may be additional restrictions on the ability of such participants to exercise their stock options or remit proceeds gained from sale of their stock into China, and we may be prevented from further granting share incentive awards under our share incentive plans to our employees who are PRC citizens.

PROVISIONS REGARDING MERGERS AND ACQUISITIONS OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the M&A Rule to more effectively regulate foreign investment in PRC domestic enterprises. The M&A Rule, as amended on June 22, 2009, provides that the Ministry of Commerce must be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise and any of the following situations exists: (1) the transaction involves an important industry in China, (2) the transaction may affect national “economic security,” or (3) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. Complying with the requirements of the M&A Rules to complete acquisitions of PRC companies by foreign investors could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit the ability to complete such transactions.

REGULATIONS

REGULATIONS ON TAXATION

PRC Enterprise Income Tax. The National People's Congress, the Chinese legislature, passed the EIT Law, as last amended in 2018. The EIT Law applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises. Preferential tax treatments grants 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 State Council promulgated the implementation rules of the EIT Law in 2007, as last amended in 2019, and the Ministry of Science and Technology, the MOF and the SAT promulgated other supplemental rules in 2008 which were amended in 2016, respectively, regarding new criteria for the granting of "high and new technology enterprises" status. 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.

According to the Circular On Several Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry (《國務院關於印發進一步鼓勵軟件產業和集成電路產業發展若干政策的通知》) promulgated by the State Council in January 2011 and the Circular On Policies of Enterprises Income Tax for Further Encouraging the Development of Software Industry and Integrated Circuit Industry (《財政部國家稅務總局關於進一步鼓勵軟件產業和集成電路產業發展企業所得稅政策的通知》), jointly promulgated by the MOF and the SAT in April 2012 and effective from January 1, 2011, or Circular 27, an enterprise that qualifies as a "software enterprise" established after January 1, 2011, or a software enterprise, is exempt from enterprise income tax for two years beginning in the enterprise's first profitable year followed by a tax rate of 12.5% for the succeeding three years.

Enterprises which have been entitled to similar tax preferential treatments according to previous tax regulations are allowed to continue enjoying the above preferential treatments until the tax holiday granted to them expires, even though they were established before January 1, 2011.

Pursuant to the Notice on Issues Related to the Enterprise Income Tax Preferential Policies of Software and Integrated Circuit Industry (《關於軟件和集成電路產業企業所得稅優惠政策有關問題的通知》) on May 4, 2016, the software enterprises which enjoy preferential tax treatments shall provide filing documents with respect to preferential tax treatments to the relevant tax authority when filing annual enterprise income tax returns for the settlement of tax payments. In addition, pursuant to the Measures for Handling Matters Relating to Preferential Enterprise Income Tax Policies (《企業所得稅優惠政策事項辦理辦法》) promulgated by the SAT on April 25, 2018, or Circular 23, an enterprise shall independently judge whether it satisfies the conditions prescribed under preferential taxation policies. The enterprises which satisfy such conditions shall calculate the tax reduction amount and enjoy the preferential tax treatments by filling out and submitting the enterprise income tax returns to the competent tax authority, and properly collect and retain relevant materials for future reference. For software enterprises, materials listed in the "follow-up management requirements," which are contained in the catalog attached to Circular 23, shall be prepared and submitted to the competent tax authority after annual financial settlement completed every year.

REGULATIONS

The EIT Law also provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their global income. Although the term “de facto management bodies” is defined as “management bodies which has substantial and overall management and control power on the operation, human resources, accounting and assets of the enterprise,” the circumstances under which an enterprise’s “de facto management body” would be considered to be located in China are currently unclear. A circular issued by the SAT in April 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: (1) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (3) 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 (4) at least half of the enterprise’s directors or senior management with voting rights reside in the PRC.

In addition, the SAT issued a bulletin in August 2011, effective as of September 1, 2011, to provide more guidance on the implementation of the above circular. The bulletin clarified certain matters relating to resident status determination, post determination administration and competent tax authorities. It also specifies that when provided with a copy of a PRC tax resident determination certificate from a resident PRC-controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the PRC-sourced dividends, interest and royalties to the PRC-controlled offshore incorporated enterprise. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in 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, regardless of whether they are controlled by PRC enterprises or PRC individuals.

In addition, the SAT issued a bulletin in January 2014, to provide more guidance on the implementation of the above circular. This bulletin further provided that, among other things, an entity that is classified as a “resident enterprise” in accordance with the circular 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.

The EIT Law provides that a maximum income tax rate of 20% may apply to dividends payable to non-PRC investors that are “non-resident enterprises,” to the extent such dividends are derived from sources within the PRC. The State Council has reduced such rate to 10%, in the absence of any applicable tax treaties that may reduce such rate. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. If we are required under the EIT Law to pay income tax for any dividends we receive from our PRC subsidiaries, the amount of dividends, if any, we may pay to our shareholders and ADS holders may be materially and adversely affected.

REGULATIONS

PRC Withholding Tax. According to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》), dividends paid to shareholders residing in Hong Kong are subject to a withholding tax of 5% provided that a Hong Kong resident enterprise owns over 25% of the PRC enterprise distributing the dividend and can be considered as a “beneficial owner” and entitled to treaty benefits under the DTA. In February 2018, the SAT promulgated Circular 9, to clarify the definition of beneficial owner under PRC tax treaties and tax arrangements. According to Circular 9, a beneficial owner refers to a party who holds ownership and control over incomes or the rights or assets from which the incomes are derived. In determining whether a resident of the other contracting party to a double taxation agreement, or a DTA, who is applying for enjoying preferential treatment under the DTA has the status as a beneficial owner, comprehensive analysis shall be conducted in light of the actual circumstances of the specific case and based on several factors, include among others, if (1) an applicant is under the obligation to pay 50% or more of the incomes received to any resident of any third country (region) within 12 months upon receipt of the incomes; and (2) if the business activities carried out by an applicant constitutes substantive business activities. Substantive business activities shall include substantive manufacturing, distribution, management and other activities. Whether an applicant’s business activities are substantive shall be determined based on the functions actually performed by the applicant and the risks assumed thereby. The substantive investment and shareholding management activities carried out by the applicant may constitute substantive business activities. Where the applicant concurrently engages in investment and shareholding management activities that do not constitute substantive business activities and other business activities, if the other business activities are not significant enough, the applicant will not be considered as engaging in substantive business activities and hence more likely not a beneficial owner. In addition, if the incomes derived by any of the following applicants from China are dividends, the relevant applicant may be directly determined as having the status of a “beneficial owner”:

- The government of the other contracting party to the relevant DTA;
- A company that is a resident of, and is listed on the market of, the other contracting party to the relevant DTA;
- A resident individual of the other contracting party to the relevant DTA; or
- Where one or more parties referred to in Item (1) through Item (3) directly or indirectly hold 100% of the shares of the applicant, and the mid-tier in the case of indirect shareholding is a resident of China or a resident of the other contracting party to the relevant DTA.

Further, According to Circular 9, agents or designated payees are not beneficial owners. The fact that an applicant collects incomes via an agent or a designated payee does not affect the determination of whether the applicant has the status of a beneficial owner irrespective of whether an agent or a designated payee is a resident of the other contracting party to the relevant DTA.

According to such SAT Circular 9, if the business activities carried out by an applicant do not constitute substantive business activities, then such applicant is likely not to be regarded as a beneficial owner. Our wholly-

REGULATIONS

owned Hong Kong subsidiaries, Elite Concept Holdings Limited, Winner Park Limited and Smart Shine International Limited, own 100% of some of our PRC subsidiaries. Thus, dividends paid to us by our PRC subsidiaries through our Hong Kong wholly-owned subsidiaries may be subject to the 5% withholding tax if we and our Hong Kong subsidiaries are considered as “non-resident enterprises” under the EIT Law and our Hong Kong subsidiaries are considered as “beneficial owners” and entitled to treaty benefits under the DTA. If our Hong Kong subsidiaries are not regarded as the beneficial owners of any such dividends, it will not be entitled to the treaty benefits under the DTA. As a result, such dividends would be subject to regular withholding tax of 10% as provided by the PRC domestic law rather than the favorable rate of 5% applicable under the DTA.

In addition, in September 2018, SAT and other authorities jointly promulgated Notice on Expanding Application Scope of the Policy for Temporary Exemption of Withholding Income Tax on Direct Investment by Overseas Investors with Distributed Profits (《關於擴大境外投資者以分配利潤直接投資暫不徵收預提所得稅政策適用範圍的通知》), or Circular 102, which became effective retroactively in January 2018. According to the Circular 102, where overseas investors use the profits obtained from resident enterprises within China to invest directly in the projects that are not prohibited from foreign investment, the deferred tax payment policy shall apply thereto and withholding income tax thereon shall be exempted temporarily. An overseas investor that is entitled to but has not actually enjoyed the policy of temporary exemption of withholding income tax under this Notice may apply to retroactively enjoy such policy within three years from the date of actual payment of relevant tax and for refund of the tax already paid.

According to the Circular 102, for the temporary exemption of overseas investors from payment of withholding income tax, the following conditions must be satisfied at the same time:

- (1) Direct investment made by overseas investors with the profits distributed thereto, includes their activities of equity investment with the distributed profits such as capital increase, new establishment and equity purchase and excludes the increase through purchase or distribution and purchase of the shares of listed companies (excluding the conforming strategic investment), specifically including:
(i) Increasing through purchase or distribution of the paid-in capital or capital reserve of resident enterprises within PRC; (ii) Investing in new establishment of resident enterprises within PRC; (iii) Purchasing the shares of resident enterprises within China from nonaffiliated parties; and (iv) Other methods prescribed by the MOF and the SAT. The enterprises in which overseas investors invest through above investment activities shall be collectively referred to the invested enterprises.
- (2) The profits distributed to overseas investors fall under the dividends, bonus and other equity investment income formed from the actual distribution of the retained income already realized by resident enterprises within China to investors.
- (3) Where the profits used by overseas investors for direct investment are paid in cash, relevant amounts shall be transferred directly from the accounts of the profits distributing enterprises to the accounts of the invested enterprises or equity transferors and shall not be circulated among other domestic and overseas accounts before direct investment; where the profits used by overseas investors for direct investment are paid in kind, negotiable securities and other non-cash form, the ownership to relevant

REGULATIONS

assets shall be transferred directly from the profits distributing enterprises to the invested enterprises or equity transferors and shall not be held by other enterprises and individuals on behalf thereof or temporarily.

In October 2018, SAT further promulgated Notice on Issues Relating to Expanding Application Scope of the Policy for Temporary Exemption of Withholding Income Tax on Direct Investment by Overseas Investors with Distributed Profits (《關於擴大境外投資者以分配利潤直接投資暫不徵收預提所得稅政策適用範圍有關問題的公告》), which became effective retroactively in January 2018, to implement Circular 102 in detail.

PRC Value-Added Tax (VAT). The VAT reform program change the charge of sales tax from business tax to VAT for certain pilot industries, and was initially applied only to certain pilot industries in Shanghai and was extended to apply nationwide and to cover more additional industry sectors. On March 24, 2016, the MOF and the SAT promulgated the Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value-Added Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》). 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-formal Education(《關於進一步明確全面推開營改增試點有關再保險、不動產租賃和非學歷教育等政策的通知》), in which the general taxpayers providing non-academic educational 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 the Announcement on Tax Policies to Support Prevention and Control of Pneumonia Caused by Novel Coronavirus Infection issued by the MOF and SAT, or the with Cai Shui [2020] No.8, due to the COVID-19 virus, the VAT from providing daily life services were will be exempted starting on January 1, 2020 until December 31, 2020.

ADMINISTRATIVE MEASURES FOR OUTBOUND INVESTMENT BY ENTERPRISES

Administrative Measures for Outbound Investment by Enterprises (《企業境外投資管理辦法》), or Circular 11, is promulgated by NDRC, on December 26, 2017 and became effective on March 1, 2018. According to Circular 11, to make Outbound Investment, the investor shall go through verification and approval, record-filing and other procedures applicable to outbound investment projects, report relevant information, and cooperate with supervision and inspection. Outbound investments for purpose of Circular 11 are the investment activities whereby an enterprise within PRC, directly or via overseas enterprises under its control, acquires ownership, controlling power, rights of operation and management and other relevant rights and interests overseas by making asset or equity investment, providing financing or guarantee, etc., and the aforementioned investment activities shall include but not limited to (1) acquiring land ownership, land-use rights and other rights and interests overseas; (2) acquiring concession rights to explore or exploit natural resources and other rights and interests overseas; (3) acquiring ownership, rights of operation and management and other rights and interests of infrastructure overseas; (4) acquiring ownership, rights of operation and management and other rights and interests of enterprises or assets overseas; (5) constructing new fixed assets overseas, or renovating or expanding existing fixed assets overseas; (6) establishing a new enterprise overseas or increasing investment in an existing enterprise overseas; (7) setting up a new overseas equity investment fund or purchasing units in an existing overseas equity investment fund; and (8) controlling enterprises or assets overseas by agreements or trusts. Individual resident of PRC who invest overseas via overseas enterprises or enterprises in Hong Kong, Macao and Taiwan regions which are under their control shall also be subject to this Circular 11.

REGULATIONS

According to Circular 11, sensitive outbound investment projects carried out by an enterprise within PRC directly or via the overseas enterprises under their control should obtain verification and prior approval from NDRC. For the purpose of the Circular 11, sensitive outbound investment projects include: (1) Projects involving sensitive countries and regions, including (i) countries and regions that have not established diplomatic relations with China; (ii) countries and regions where war or civil unrest has broken out; (iii) countries and regions in which investment by enterprises shall be restricted pursuant to the international treaties, agreements, etc. concluded or acceded to by China; and (iv) other sensitive countries and regions, and (2) Projects involving sensitive industries, including (i) research, production and maintenance of weaponry and equipment; (ii) development and utilization of cross-border water resources; (iii) news media; and (iv) other industries in which outbound investment needs to be restricted pursuant to China's laws and regulations as well as related control policies.

Further according to Circular 11, the non-sensitive projects carried out by the overseas enterprise directly controlled by PRC residents, including by means of making asset or equity investment by companies established for financing and investing, such as fund institutions, or providing financing or guarantee, shall complete record-filing with the competent authority prior to the implementation of such project. The non-sensitive projects carried out by the overseas enterprise indirectly controlled by PRC residents with the investment amount over US\$300 million shall be reported to the NDRC of relevant information by submitting an information reporting form for large-amount non-sensitive projects.

Where an outbound investment project falls within the scope of administration by verification and approval or record-filing but its investor within the PRC fails to obtain a valid verification and approval document or notice of record-filing, departments in charge of foreign exchange administration and customs, should, pursuant to the law, not process its application, and no financial enterprises should, pursuant to the law, provide relevant fund settlement and financing services.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a summary of our Company's authorized and issued share capital immediately prior to, and upon the completion of, the Global Offering.

Authorized share capital

	Shares	Approximate aggregate nominal value of Shares US\$
Authorized share capital	300,000,000	3,000,000

Issued, fully paid or credited to be fully paid

	Shares	Nominal value of shares US\$	Approximate percentage of authorized share capital %
Issued share capital	160,379,387	0.01	53.5
<i>Shares to be issued under the Global Offering</i>	<i>8,510,000</i>	<i>0.01</i>	<i>2.8</i>
Issued share capital upon the completion of the Global Offering	168,889,387	0.01	56.3

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not account for any allotment and issuance of Shares upon the exercise of the Over-allotment Option, the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or the vesting of restricted shares or other awards that have been or may be granted from time to time, and any issuance or repurchase of Shares and/or ADSs that we may make.

RANKING

The Shares are common shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date that falls after the date of this document.

GENERAL MEETINGS

See "Summary of our Constitution and Cayman Company Law" in Appendix III.

SHARE CAPITAL

SHARE INCENTIVE PLANS

See “Director and Senior Management — Share Incentive Plans.”

SHARE PURCHASES OF OUR COMPANY

On October 24, 2018, we announced a share repurchase program authorized by our board, pursuant to which we were authorized to repurchase our own common shares or ADSs, with an aggregate value of up to US\$200 million, during the period from October 29, 2018 through May 31, 2019. The table below shows the ADSs that we have repurchased under this program as of May 31, 2019, being the last day of the program.

Period	Total Number of ADSs Purchased ⁽¹⁾	Average Price Paid Per ADS	Total Number of ADSs Purchased as Part of Publicly Announced Program	Approximate Maximum Dollar Value of ADSs that May Yet Be Purchased Under the Program
		US\$	US\$	
November 2018	51,900	57.73	51,900	197,003,746
December 2018	658,500	56.20	658,500	159,998,581
January 2019	240,800	66.03	240,800	144,089,025
March 2019	800	74.71	800	144,038,257
Total	<u>952,000</u>	<u>58.78</u>	<u>952,000</u>	<u>144,038,257</u>

Note:

(1) Our ADS to Share ratio is one ADS for every one Share.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$11,717.5 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK\$1,399.00 per Offer Share for both the Hong Kong Public Offering and the International Offering, and assuming that the Over-allotment Option is not exercised, or HK\$13,486.8 million if the Over-allotment Option is exercised in full.

The International Offer Price in the International Offering may be higher than, or the same as, the Hong Kong Offer Price in the Hong Kong Public Offering. See “Structure of the Global Offering — Pricing and allocation.”

We plan to use the net proceeds we will receive from the Global Offering for the following purposes:

- (a) Approximately 40% (approximately HK\$4,687.0 million, assuming the Over-allotment Option is not exercised) to enhance students’ learning experience, through our continuous innovation and investment in technologies, including big data analytics and AI technology, and improvements in the functions and efficiency of our OMO system and other learning platforms, such as our interactive Q&A machine, matrix of apps, visible progress system, Quality Assurance Development (QAD) system and computerized assessment testing system. We plan to invest in R&D technology and personnel to develop new innovative and interactive features and functions to enhance learning experience. We also plan to improve the personalized learning experience of our students by leveraging our technologies and data on students’ learning behaviors, process and performance, for example, by enhancing our data analytics capabilities and the use of AI in analyzing students’ learning progress to provide learning contents that cater to students’ capabilities and learning progress, and further strengthen our in-house content development capabilities. We will continue to expand our course offerings and develop customized teaching content for students. Furthermore, we will continue to maintain high-quality teaching by investing in systematic teacher training programs, including developing training materials and online teacher training platforms, organizing teacher training activities, and enhancing our Quality Assurance Development system and Visible Progress System.
- (b) Approximately 30% (approximately HK\$3,515.2 million, assuming the Over-allotment Option is not exercised) for our business growth and geographic expansion. We plan to continue to expand our classroom capacities to support future growth through expanding our nationwide physical network of schools and learning centers. In determining the portion of net proceeds to be applied in this regard, we have taken into consideration the key costs for establishing new schools and learning centers, including amounts for lease and deposits to secure new premises, investments in equipment and leasehold improvements. We plan to increase our capacities in cities where we currently operate, and to a lesser extent, expand into new cities with unserved or underserved student demand for our education services. The locations of such premises will be subject to market research and due diligence.
- (c) Approximately 20% (approximately HK\$2,343.5 million, assuming the Over-allotment Option is not exercised) for strategic investments and acquisitions. We may consider potential strategic

USE OF PROCEEDS

investments or acquisition opportunities of small to medium size companies that bring synergies to our existing businesses and ecosystem. We plan to selectively pursue investment or acquisition opportunities that specialize in certain areas of education content that allow us to expand and enhance our product and service offerings and strengthen our content development capabilities. We will also focus on companies with unique technologies that may enhance the features of our OMO system and other learning platforms. We have not identified any specific investments or acquisition opportunities at this time.

- (d) Approximately 10% (approximately HK\$1,171.7 million, assuming the Over-allotment Option is not exercised) for general corporate purposes and working capital needs.

If the net proceeds from the Global Offering are not immediately used for the purposes described above, and to the extent permitted by applicable law and regulations, we intend to place them on short-term deposit with licensed banks and/or authorized financial institutions.

UNDERWRITING

HONG KONG UNDERWRITERS

Credit Suisse (Hong Kong) Limited
Merrill Lynch (Asia Pacific) Limited
UBS AG Hong Kong Branch
China International Capital Corporation Hong Kong Securities Limited
Citigroup Global Markets Asia Limited
CLSA Limited
ABCI Securities Company Limited
BOCI Asia Limited
CCB International Capital Limited
CMB International Capital Limited
The Hongkong and Shanghai Banking Corporation Limited
ICBC International Securities Limited
Macquarie Capital Limited
Nomura International (Hong Kong) Limited
Starwin Financial Group Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 510,600 Hong Kong Offer Shares and the International Offering of initially 7,999,400 International Offer Shares, subject, in each case, to reallocation on the basis as described in “Structure of the Global Offering” as well as to the Over-allotment Option (in the case of the International Offering).

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement at the Public Offer Price.

Subject to: (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued

UNDERWRITING

pursuant to the exercise of the Over-allotment Option) and the Shares proposed to be issued pursuant to the Share Incentive Plans on the Main Board of the Hong Kong Stock Exchange and such approval not having been subsequently revoked prior to the commencement of trading of the Shares on the Stock Exchange and (b) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on, among other things, the International Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for termination

If any of the events set out below occur at any time prior to 8:00 a.m. on the Listing Date, the Joint Sponsors and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled, in their sole and absolute discretion and upon giving notice in writing to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect:

- (a) trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the NYSE, the American Stock Exchange, Nasdaq or the Hong Kong Stock Exchange;
- (b) trading of any of our securities shall have been suspended on any exchange or in any over-the-counter market;
- (c) a material disruption in securities settlement, payment or clearance services in the United States, the Cayman Islands, the PRC or Hong Kong shall have occurred;
- (d) any moratorium on commercial banking activities shall have been declared by United States Federal, New York State, the Cayman Islands, the PRC or Hong Kong authorities; or
- (e) there shall have occurred any outbreak or escalation of hostilities, or any change in financial markets, currency exchange rates or controls or any calamity or crisis, or any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national, regional or international emergency or war, acts of war, acts of terrorism or acts of God) that, in the reasonable judgment of the Joint Representatives, is material and adverse and which, singly or together with any other event specified in this paragraph, makes it, in the reasonable judgment of the Joint Representatives, impracticable to proceed with the offer, sale or delivery of the Offer Shares on the terms and in the manner contemplated in this prospectus, and the registration statement, the general disclosure package and the final prospectus to be filed or issued by us.

UNDERWRITING

Undertakings Pursuant to the Hong Kong Underwriting Agreement

We have undertaken to each of the Joint Representatives, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors and the Hong Kong Underwriters that for the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is 90 days after the Listing Date (the “**Lock-Up Period**”), unless with the prior written consent of the Joint Sponsors and the Joint Representatives (for themselves and on behalf of the Hong Kong Underwriters), and unless in compliance with the requirements of the Hong Kong Listing Rules, we will not:

- (a) offer, allot, issue, sell, pledge, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or ADSs or any securities convertible into or exchangeable or exercisable for or that represent the right to receive, any Shares or ADSs or other securities of the Company, or deposit any Shares or other securities of the Company, with a depositary in connection with the issue of depositary receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or ADSs or other securities of the Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, any Shares or ADSs or other securities of the Company); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or contract to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified above is to be settled by delivery of Shares or ADSs or other securities of the Company, or in cash or otherwise (whether or not the issue of such Shares or ADSs or other shares or securities will be completed within the Lock-up Period), except for:

- (i) the issue, offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option);
- (ii) the grant or issue of securities pursuant to the terms of the Share Incentive Plans;
- (iii) any capitalization issue, capital reduction or consolidation or sub-division of our Shares, and
- (iv) any repurchase of securities pursuant to any of our share repurchase programs existing on the date of the Hong Kong Underwriting Agreement.

UNDERWRITING

International Offering

International Underwriting Agreement

In connection with the International Offering, we expect to enter into the International Underwriting Agreement with among others, the Joint Representatives (for themselves and on behalf of the International Underwriters) on the Price Determination Date. Under the International Underwriting Agreement and subject to the Over-allotment Option, the International Underwriters would, subject to certain conditions set out therein, agree severally but not jointly to procure subscribers for, or themselves to subscribe for, their respective applicable proportions of the International Offer Shares initially being offered pursuant to the International Offering. The International Offering will consist of a U.S. offering and a non-U.S. offering. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. See “Structure of the Global Offering — The International Offering.”

Over-allotment Option

We expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Representatives on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last day for lodging applications under the Hong Kong Public Offering, pursuant to which we may be required to issue up to an aggregate of 1,276,500 Shares, representing not more than 15% of the number of Offer Shares initially available under the Global Offering, at the International Offer Price, to cover over-allocations in the International Offering, if any. See “Structure of the Global Offering — The International Offering — Over-allotment Option.”

Commissions and Expenses

The Underwriters will receive an underwriting commission of up to 1.0% of the aggregate offer price of all the Offer Shares (including any Offer Shares to be issued by us pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate underwriting commissions and fees together with the Hong Kong Stock Exchange listing fees, the SFC transaction levy and the Hong Kong Stock Exchange trading fee, SEC registration fees, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK\$204.5 million (assuming an indicative offer price of HK\$1,399.00 per Offer Share for both Hong Kong Public Offering and International Offering and the exercise of the Over-allotment Option in full) and will be paid by our Company.

UNDERWRITING

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilizing process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group’s loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Hong Kong Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in “Structure of the Global Offering.” Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

UNDERWRITING

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including:

- (a) the Syndicate Members (other than the Stabilizing Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to the Company and its affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

In addition, the Syndicate Members or their respective affiliates may provide financing to investors to finance their subscriptions of Offer Shares in the Global Offering.

LOCK-UP UNDERTAKING BY MR. YU

Mr. Michael Minhong Yu, chairman of our board of directors, who held approximately 12.3% of our total issued shares as of the Latest Practicable Date, through his wholly-owned company, Tigerstep Developments Limited, has agreed with the Underwriters that, during the period of 90 days from (and including) the Price Determination Date, or such earlier date that the Joint Sponsors and the Joint Representatives consent to in writing (the “**Chairman Lock-Up Period**”), he will not, and will not cause any of its direct or indirect affiliates to:

- (a) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any of our Shares or ADSs, in respect of which he is the beneficial owner (as such term is used in Rule 13d-3 of the Exchange Act), including, without limitation, any securities convertible into or exercisable or exchangeable for our Shares or ADSs (collectively, the “**Chairman Lock-Up Securities**”);
- (b) enter into any hedging, swap, or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Chairman Lock-Up Securities; or
- (c) publicly disclose any intention to effect any aforesaid transactions described in (a) or (b) above,

in each case of clause (a) and (b) above, whether any of the transactions specified above is to be settled by delivery of the Chairman Lock-Up Securities or in cash or otherwise.

UNDERWRITING

The foregoing restrictions do not apply to:

- (i) transactions relating to our Shares or ADSs or other securities acquired in the Global Offering or otherwise in open market transactions after the completion of the Global Offering, provided that no filing under the Exchange Act is required or shall be voluntarily made in connection with subsequent sales of our Shares or ADSs or other securities acquired in such transactions;
- (ii) the establishment of a trading plan pursuant to Rule 10b5-1 under the Exchange Act for the transfer of our Shares or ADSs during the Chairman Lock-Up Period, provided that (1) such plan does not provide for the transfer of the Chairman Lock-Up Securities during the Chairman Lock-Up Period and (2) to the extent a public announcement or filing under the Exchange Act, if any, is required of or voluntarily made by or on behalf of Mr. Yu or the Company, regarding the establishment of such plan, such announcement or filing shall include a statement to the effect that no transfer of our Shares or ADSs may be made under such plan during the Chairman Lock-Up Period;
- (iii) the enforcement of any security interest created prior to the completion of the Global Offering over Mr. Yu's assets generally, which may include the Chairman Lock-Up Securities; or
- (iv) (1) the creation of any charge, lien, mortgage, pledge or other security interest over or in respect of, or (2) the delivery or posting as collateral of (in each case, a "**Pledge**"), any or all of the Chairman Lock-Up Securities to secure Mr. Yu's obligations or that of Mr. Yu's affiliates arising under, or in connection with, any bona fide financing agreement or arrangement that Mr. Yu or Mr. Yu's affiliates entered into, provided that Mr. Yu shall procure the recipient of any Chairman Lock-Up Securities during the Chairman Lock-Up Period upon a foreclosure on any Pledged Chairman Lock-Up Securities shall sign and deliver a lock up letter.

Notwithstanding the foregoing, Mr. Yu may transfer the Chairman Lock-Up Securities:

- (i) as a *bona fide* gift or gifts, or through will or intestacy;
- (ii) to Mr. Yu's immediate family members, or to any trust for Mr. Yu's direct or indirect benefit or that of Mr. Yu's immediate family, or to any entity that Mr. Yu or Mr. Yu's immediate family members beneficially own and control; or
- (iii) with the prior written consent of the Joint Sponsors and the Joint Representatives,

provided that, in the case of any transfer or distribution pursuant to foregoing clause (i) and (ii), (1) each donee, distributee or transferee, as the case may be, shall agree to be bound by the terms of the lock-up letter; and (2) no filing under the Exchange Act, reporting of reduction in beneficial ownership of the Chairman Lock-up Securities, shall be required or shall be voluntarily made during the Chairman Lock-up Period.

Nonetheless, nothing in this agreement shall prohibit the exercise of any option, warrant or other rights to acquire our Shares, ADSs or other securities, the vesting of restricted shares or the conversion of any convertible security into our Shares or ADSs granted pursuant to the Share Incentive Plans.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This document is published in connection with the Hong Kong Public Offering as part of the Global Offering. Credit Suisse (Hong Kong) Limited, Merrill Lynch (Asia Pacific) Limited and UBS AG Hong Kong Branch are the Joint Representatives of the Global Offering.

The listing of the Shares on the Main Board of the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document.

8,510,000 Offer Shares will initially be made available under the Global Offering comprising:

- (a) the Hong Kong Public Offering of initially 510,600 Shares (subject to reallocation) in Hong Kong as described in the sub-section “The Hong Kong Public Offering” in this section below; and
- (b) the International Offering of initially 7,999,400 Shares (subject to reallocation and the Over-allotment Option) pursuant to the shelf registration statement on Form F-3ASR that was filed with the SEC and became effective on October 23, 2020, and the preliminary prospectus supplement filed with the SEC on October 28, 2020 and the final prospectus supplement to be filed with the SEC on or about November 3, 2020.

Investors may either:

- (a) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (b) apply for or indicate an interest for International Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 5.04% of the total Shares in issue immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised and no Shares are issued pursuant to the Share Incentive Plans. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 5.75% of the total Shares in issue immediately following the completion of the Global Offering and the full exercise of the Over-allotment Option (assuming no Shares are issued pursuant to the Share Incentive Plans).

References in this document to applications, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering 510,600 Shares for subscription by the public in Hong Kong at the Public Offer Price, representing 6% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 0.30% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued pursuant to the Share Incentive Plans).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in “Conditions of the Global Offering” below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering.

The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable) and up to the total value in pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such

STRUCTURE OF THE GLOBAL OFFERING

unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of the immediately preceding paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Public Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 255,300 Hong Kong Offer Shares is liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules such that, in the event of over-subscription, the alternative clawback mechanism shall be applied.

510,600 Offer Shares are initially available in the Hong Kong Public Offering, representing 6% of the Offer Shares initially available under the Global Offering. The allocation of Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment.

If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents: (a) 10 times or more but less than 40 times, (b) 40 times or more but less than 80 times and (c) 80 times or more of the total number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 765,900 Offer Shares (in the case of (a)), 1,021,200 Offer Shares (in the case of (b)) and 2,042,400 Offer Shares (in the case of (c)), representing 9%, 12% and 24% of the total number of Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Representatives deem appropriate.

In addition, the Joint Representatives may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Representatives may reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Representatives deem appropriate.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Representatives. In accordance with the Guidance Letter HKEX-GL91-18 issued by the Hong Kong Stock Exchange, if such reallocation is done other than pursuant to the clawback mechanism above, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (*i.e.*, 1,021,200 Shares, representing 12% of the total number of Offer Shares initially available under the Global Offering).

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Offering will be disclosed in the allotment results announcement of the Hong Kong Public Offering, which is expected to be published on November 6, 2020.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her that he/she and any person(s) for whose benefit he/she is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is/are breached and/or untrue (as the case may be) or if he/she has been or will be placed or allocated International Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Public Offer Price of HK\$1,399.00 per Offer Share in addition to the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK\$14,130.98 for one board lot of 10 Shares. If the Public Offer Price, as finally determined in the manner described in "Pricing and Allocation" is less than the maximum Public Offer Price of HK\$1,399.00 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in "How to Apply for Hong Kong Offer Shares."

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an initial offering of initially 7,999,400 Offer Shares, representing 94% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and the Over-allotment Option). The number of Offer Shares initially offered under the International Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 4.74% of the total Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised and no Shares are issued pursuant to the Share Incentive Plans).

STRUCTURE OF THE GLOBAL OFFERING

Allocation

The International Offering will include U.S. offering of Offer Shares in the United States as well as non-U.S. offering to institutional and professional investors and other investors in other jurisdictions outside the United States. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in “Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Group and the Shareholders as a whole.

The Joint Representatives (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Representatives so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allocation of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in “The Hong Kong Public Offering — Reallocation,” the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters).

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Joint Representatives (for themselves and on behalf of the International Underwriters) at any time from the Listing Date until 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 1,276,500 additional Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the International Offer Price under the International Offering to cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Offer Shares to be issued pursuant thereto will represent approximately 0.75% of the total Shares in issue immediately following the completion of the Global Offering assuming no Shares are issued pursuant to the Share Incentive Plans. If the Over-allotment Option is exercised, an announcement will be made.

STRUCTURE OF THE GLOBAL OFFERING

STABILIZATION

Underwriters use stabilization in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which the stabilization is effected is not permitted to exceed the Public Offer Price.

In connection with the Global Offering, the Stabilizing Manager (or any person acting for it), on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date in the Hong Kong market. However, there is no obligation on the Stabilizing Manager (or any person acting for it) to conduct any such stabilizing action. Such stabilizing action, if taken: (a) will be conducted at the absolute discretion of the Stabilizing Manager (or any person acting for it) and in what the Stabilizing Manager reasonably regards as our best interest; (b) may be discontinued at any time; and (c) is required to be brought to an end within 30 days after the last day for lodging applications under the Hong Kong Public Offering.

Stabilization action permitted in Hong Kong pursuant to the *Securities and Futures (Price Stabilizing) Rules* of the SFO includes: (a) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares; (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (c) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under Paragraphs (a) or (b) above; (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (e) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases; and (f) offering or attempting to do anything as described in Paragraphs (b), (c), (d) or (e) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilizing Manager (or any person acting for it) may, in connection with the stabilizing action, maintain a long position in the Shares;
- (b) there is no certainty as to the extent to which and the time or period for which the Stabilizing Manager (or any person acting for it) will maintain such a long position;
- (c) liquidation of any such long position by the Stabilizing Manager (or any person acting for it) and selling in the open market may have an adverse impact on the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilization period, which will begin on the Listing Date, and is expected to expire on Thursday, December 3, 2020, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

STRUCTURE OF THE GLOBAL OFFERING

- (e) the price of the Shares cannot be assured to stay at or above the Public Offer Price by the taking of any stabilizing action; and
- (f) stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Public Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

We will ensure or procure that an announcement in compliance with the *Securities and Futures (Price Stabilizing) Rules* of the SFO will be made within seven days of the expiration of the stabilization period.

In addition, stabilization transactions with respect to the ADSs may be effected by one of the International Underwriters or its affiliates before the listing of the Shares on the Hong Kong Stock Exchange in accordance with applicable laws and regulations.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may cover such over-allocations by, among other methods, exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager (or any person acting for it) in the secondary market at prices that do not exceed the Public Offer Price or through the Stock Borrowing Agreement as detailed below, or through a combination of these means.

Stock Borrowing Agreement

To cover any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager (or any person acting for it) may choose to borrow up to 1,276,500 Shares (being the maximum number of Shares which may be issued pursuant to the exercise of the Over-allotment Option) from Tigerstep Developments Limited, pursuant to the Stock Borrowing Agreement, which is expected to be entered into between the Stabilizing Manager (or any person acting for it) and Tigerstep Developments Limited on or about the Price Determination Date.

The same number of Shares so borrowed must be returned to Tigerstep Developments Limited, on or before the fifth business day or in the event that the Stabilizing Manager conducts stabilizing action by purchasing ADSs in the U.S. market, the seventh business day, following the earlier of (a) the last day on which the Over-allotment Option may be exercised and (b) the day on which the Over-allotment Option is exercised in full, or such earlier time as agreed in writing between the Stabilizing Manager and Tigerstep Developments Limited.

The stock borrowing arrangement described above will be effected in compliance with all applicable laws, rules and regulatory requirements in Hong Kong. No payment will be made to Tigerstep Developments Limited by the Stabilizing Manager (or any person acting for it) in relation to such stock borrowing arrangement.

STRUCTURE OF THE GLOBAL OFFERING

Pricing and Allocation

Determining the Offer Price

We will determine the pricing for the Offer Shares for the purpose of the various offerings under the Global Offering on the Price Determination Date, which is expected to be on or about November 3, 2020 and, in any event, no later than November 6, 2020, by agreement with the Joint Representatives (for themselves and on behalf of the Underwriters), and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

We will determine the Public Offer Price by reference to, among other factors, the closing price of the ADSs on the New York Stock Exchange on the last trading day on or before the Price Determination Date, and the Public Offer Price will not be more than HK\$1,399.00 per Hong Kong Offer Share. The historical prices of our ADSs and trading volume on the New York Stock Exchange are set out below.

Period	High	Low	ADTV
	(US\$)	(US\$)	(million ADSs) ⁽¹⁾
Fiscal year ended May 31, 2020	141.76	87.98	1.31
Fiscal year of 2020 (up to the Latest Practicable Date)	175.98	122.00	1.01

Note:

(1) Average daily trading volume (“ADTV”) represents daily average number of our ADSs traded over the relevant period.

Applicants under the Hong Kong Public Offering must pay, on application, the maximum Public Offer Price of HK\$1,399.00 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, amounting to a total of HK\$14,130.98 for one board lot of 10 Shares.

We may set the International Offer Price at a level higher than the maximum Public Offer Price if (a) the Hong Kong dollar equivalent of the closing trading price of the ADSs on the NYSE on the last trading day on or before the Price Determination Date (on a per-Share converted basis) were to exceed the maximum Public Offer Price as stated in this document and/or (b) we believe that it is in the best interest of the Company as a listed company to set the International Offer Price at a level higher than the maximum Public Offer Price based on the level of interest expressed by professional and institutional investors during the book-building process.

If the International Offer Price is set at or lower than the maximum Public Offer Price, the Public Offer Price must be set at such price which is equal to the International Offer Price. In no circumstances will we set the Public Offer Price above the maximum Public Offer Price as stated in this document or the International Offer Price.

We reserve the right not to proceed with the Hong Kong Public Offering or the International Offering on or at any time until the Price Determination Date if, for any reason, including as a result of volatility in the price of our ADSs or other changes in market conditions, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares by Friday, November 6, 2020.

STRUCTURE OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

The Joint Representatives (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with our consent, reduce the number of Offer Shares offered below as stated in this document at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on our website and the website of the Hong Kong Stock Exchange at <http://investor.neworiental.org/> and www.hkexnews.hk, respectively, notices of the reduction.

Upon the issue of such a notice, the revised number of Offer Shares will be final. If the number of Offer Shares is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this document, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced.

The final pricing of the Offer Shares, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in "How to Apply for Hong Kong Offer Shares — Publication of Results."

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to, among other things, our agreeing with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

STRUCTURE OF THE GLOBAL OFFERING

These underwriting arrangements, including the Underwriting Agreements, are summarized in “Underwriting.”

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the Shares to be issued pursuant to the Share Incentive Plans, on the Main Board of the Hong Kong Stock Exchange and such approval not subsequently having been withdrawn or revoked prior to the Listing Date;
- (b) the pricing of the Offer Shares having been agreed between the Joint Representatives (for themselves and on behalf of the Underwriters) and us;
- (c) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days from the date of this prospectus.

If, for any reason, we do not agree with the Joint Representatives (for themselves and on behalf of the Underwriters) on the pricing of the Offer Shares on or before Friday, November 6, 2020, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us on our website and the website of the Hong Kong Stock Exchange at <http://investor.neworiental.org/> and www.hkexnews.hk, respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares — Refund of application monies.” In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE GLOBAL OFFERING

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Monday, November 9, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, November 9, 2020, it is expected that dealings in the Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Monday, November 9, 2020.

The Shares will be traded in board lots of 10 Shares each and the stock code of the Shares will be 9901.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at <http://investor.neworiental.org/>. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Offer Shares, you may call the enquiry hotline of our Hong Kong Share Registrar and White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8690 from Thursday, October 29, 2020 to Tuesday, November 3, 2020.

A. Applications for the Hong Kong Offer Shares

1. How to Apply

We will not provide any printed application forms for use by the public.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk; or
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.
- (iii) If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.
- (iv) If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.
- (v) None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.
- (vi) We, the Joint Representatives, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for the Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- (a) are 18 years of age or older; and
- (b) have a Hong Kong address.

If an application is made by a person under a power of attorney, we and the Joint Representatives may accept it at our or their discretion, and on any conditions we or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules or any relevant waivers that have been granted by the Hong Kong Stock Exchange (details of the relevant waivers are set out in the sections headed "Waivers and

HOW TO APPLY FOR HONG KONG OFFER SHARES

Exemptions — Subscription for Shares by Existing Shareholders” and “Waivers and Exemptions — Dealings in Shares prior to Listing”, you cannot apply for any Hong Kong Offer Shares if:

- (a) you are an existing beneficial owner of Shares and/or a substantial shareholder of any of our subsidiaries;
- (b) you are our director or chief executive and/or a director or chief executive officer of our subsidiaries;
- (c) you are a close associate (as defined in the Listing Rules) of any of the above persons;
- (d) you are a core connected person of the Company (as defined in the Listing Rules) or a person who will become a core connected person of the Company immediately upon the completion of the Global Offering; or
- (e) you have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for the Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals, please contact them for the items required for the application.

3. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus you:

- (a) undertake to execute all relevant documents and instruct and authorize us and/or the Joint Representatives (or their agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Law;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- (f) agree that none of us, the Relevant Persons and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
- (h) agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;
- (l) warrant that the information you have provided is true and accurate;
- (m) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- (n) authorize (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any share certificate(s) and/or any e-Refund payment instructions and/ or any refund cheque(s) to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “— Personal Collection” below to collect the share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (o) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (p) understand that we, our directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (q) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the **White Form eIPO** service or by any one as your agent or by any other person; and
- (r) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 10 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
10	14,130.98	300	423,929.32	3,000	4,239,293.17	80,000	113,047,817.84
20	28,261.96	350	494,584.20	3,500	4,945,842.04	100,000	141,309,772.30
30	42,392.93	400	565,239.09	4,000	5,652,390.89	150,000	211,964,658.45
40	56,523.91	450	635,893.98	4,500	6,358,939.76	200,000	282,619,544.60
50	70,654.89	500	706,548.87	5,000	7,065,488.62	255,300 ⁽¹⁾	360,763,848.69
60	84,785.87	600	847,858.63	6,000	8,478,586.34		
70	98,916.84	700	989,168.41	7,000	9,891,684.06		
80	113,047.82	800	1,130,478.18	8,000	11,304,781.78		
90	127,178.80	900	1,271,787.96	9,000	12,717,879.51		
100	141,309.78	1,000	1,413,097.72	10,000	14,130,977.23		
150	211,964.66	1,500	2,119,646.59	20,000	28,261,954.46		
200	282,619.54	2,000	2,826,195.45	40,000	56,523,908.92		
250	353,274.43	2,500	3,532,744.31	60,000	84,785,863.38		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Applying through the White Form eIPO Service

General

Individuals who meet the criteria in “— Who Can Apply” above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you have any questions on how to apply through the **White Form eIPO** service for the Hong Kong Offer Shares, please contact the telephone enquiry line of the **White Form eIPO** Service Provider at +852 2862 8690 which is available from Thursday, October 29, 2020 to Tuesday, November 3, 2020.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at www.eipo.com.hk (24 hours daily, except on the last day for applications) from 9:00 a.m. on Thursday, October 29, 2020 until 11:30 a.m. on Tuesday, November 3, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, November 3, 2020, the last day for applications, or such later time as described in “C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

Commitment to sustainability

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-served and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 per each “New Oriental Education & Technology Group Inc.” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

6. Applying through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these electronic application instructions through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Joint Sponsors, the Joint Representatives and the Hong Kong Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a **broker** or **custodian** or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
 - (i) agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - (ii) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - (iii) undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares nor participated in the International Offering;
 - (iv) (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (v) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as its agent;
 - (vi) confirm that you understand that we, our directors and the Joint Representatives will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
 - (vii) authorize us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and dispatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
 - (viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - (ix) confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (x) agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- (xi) agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;
- (xii) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- (xiii) agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;
- (xiv) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;
- (xv) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Hong Kong Offer Shares;
- (xvi) agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Cayman Companies Law; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xvii) agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- (a) instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- (b) instructed and authorized HKSCC to arrange payment of the maximum Public Offer Price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Public Offer Price is less than the maximum Public Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) by crediting your designated bank account; and
- (c) instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, October 29, 2020 — 9:00 a.m. to 8:30 p.m.

Friday, October 30, 2020 — 8:00 a.m. to 8:30 p.m.

Saturday, October 31, 2020 — 8:00 a.m. to 1:00 p.m.

Monday, November 2, 2020 — 8:00 a.m. to 8:30 p.m.

Tuesday, November 3, 2020 — 8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, October 29, 2020 until 12:00 noon on Tuesday, November 3, 2020 (24 hours daily, except on Tuesday, November 3, 2020, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, November 3, 2020, the last day for applications, or such later time as described in “C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Note:

- (1) The times in this subsection are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- (a) processing your application and refund cheque, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (b) compliance with applicable laws and regulations in Hong Kong and elsewhere;
- (c) registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- (d) maintaining or updating our register of securities' holders;
- (e) verifying identities of the holders of our Shares;
- (f) establishing benefit entitlements of holders of our Shares, such as dividends, rights issues, bonus issues, etc.;
- (g) distributing communications from us and our subsidiaries;
- (h) compiling statistical information and profiles of the holder of our Shares;
- (i) disclosing relevant information to facilitate claims on entitlements; and
- (j) any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by us and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- (a) our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- (b) where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- (c) any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;
- (d) the Hong Kong Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (e) any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

We and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfill the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed “Corporate Information” in this prospectus or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

7. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems.

In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/ CCASS Internet System for submission of electronic application instructions, they should go to HKSCC’s Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Tuesday, November 3, 2020.

8. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an unlisted company makes an application and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. How Much are the Hong Kong Offer Shares

The maximum Public Offer Price is HK\$1,399.00 per Hong Kong Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 10 Hong Kong Offer Shares, you will pay HK\$14,130.98.

You must pay the maximum Public Offer Price, together with brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, in full upon application for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 10 Hong Kong Offer Shares. If you make an **electronic application instruction** for more than 10 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the section “— 4. Minimum Application Amount and Permitted Numbers”.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Hong Kong Listing Rules), and the SFC transaction levy and the Hong Kong Stock Exchange trading fee will be paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected by the Hong Kong Stock Exchange on behalf of the SFC).

For further details on the Public Offer Price, see “Structure of the Global Offering — Pricing and Allocation.”

C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, November 3, 2020. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, November 3, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” we will make an announcement on our websites at <http://investor.neworiental.org/> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

D. Publication of Results

We expect to announce the pricing of the Offer Shares on Tuesday, November 3, 2020 on our website at <http://investor.neworiental.org/> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

We expect to announce the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Friday, November 6, 2020 on our website at <http://investor.neworiental.org/> and the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website and the website of the Hong Kong Stock Exchange at <http://investor.neworiental.org> and www.hkexnews.hk, respectively, by no later than 9:00 a.m. on Friday, November 6, 2020;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID function” on a 24 hour basis from 8:00 a.m. on Friday, November 6, 2020 to 12:00 midnight on Thursday, November 12, 2020; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Friday, November 6, 2020 and from Monday, November 9, 2020 to Wednesday, November 11, 2020.

If we accept your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in “Structure of the Global Offering.”

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. Circumstances in Which You Will Not Be Allocated the Hong Kong Offer Shares

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding any days which is a Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up

HOW TO APPLY FOR HONG KONG OFFER SHARES

and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus; or

- if any supplement to this prospectus is issued, in which case we will notify applicants who have already submitted an application that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

If we or our agents exercise discretion to reject your application:

We, the Joint Representatives, the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Hong Kong Offer Shares and the International Offer Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at www.eipo.com.hk;
- you apply for more than 255,300 Hong Kong Offer Shares, being 50% of the 510,600 Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we or the Joint Representatives believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- the Underwriting Agreements do not become unconditional or are terminated.

F. Refund of Application Monies

If an application is rejected, not accepted or accepted in part only, or if the Public Offer Price as finally determined is less than the maximum Public Offer Price per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable thereon) paid on application, or if the conditions of the Global Offering as set out in “Structure of the Global Offering — Conditions of the Global Offering” are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Friday, November 6, 2020.

G. Dispatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Cheques

You will receive one share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the share certificates will be deposited into CCASS as described below).

The Company will not issue temporary document of title in respect of the Offer Shares. The Company will not issue receipt for sums paid on application.

Subject to arrangement on dispatch/collection of share certificates and refund cheques as mentioned below, any refund cheques and share certificate(s) are expected to be posted on or before Friday, November 6, 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, November 9, 2020, provided that the Global Offering has become unconditional in all respects at or before that time.

Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the share certificates or prior to the share certificates becoming valid do so entirely at their own risk.

Personal Collection

- *If you apply through White Form eIPO service:*
 - (a) If you apply for 200,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from the Hong Kong Share Registrar,

HOW TO APPLY FOR HONG KONG OFFER SHARES

Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, November 6, 2020, or any other place or date notified by us.

- (b) If you do not personally collect your share certificate(s) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
- (c) If you apply for less than 200,000 Hong Kong Offer Shares through the **White Form eIPO** service, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, November 6, 2020 by ordinary post and at your own risk.
- (d) If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post and at your own risk.

- ***If you apply through CCASS EIPO service:***

Allocation of the Hong Kong Offer Shares

For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- (a) If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, November 6, 2020 or on any other date determined by HKSCC or HKSCC Nominees.
- (b) We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in "— Publication of Results" above on Friday, November 6, 2020. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Friday, November 6, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (c) If you have instructed your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that **broker** or **custodian**.
- (d) If you have applied as a CCASS Investor Participant, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, November 6, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- (e) Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Public Offer Price and the maximum Public Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your **broker** or **custodian** on Friday, November 6, 2020.

H. Admission of the Shares into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Hong Kong Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-71, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC. AND CREDIT SUISSE (HONG KONG) LIMITED, MERRILL LYNCH FAR EAST LIMITED AND UBS SECURITIES HONG KONG LIMITED

Introduction

We report on the historical financial information of New Oriental Education & Technology Group Inc. (the "Company"), its consolidated subsidiaries, its variable interest entities (the "VIEs") and the VIEs' subsidiaries and schools (together, the "Group") set out on pages I-3 to I-71, which comprises the consolidated balance sheets of the Group as at May 31, 2018, 2019 and 2020 and the consolidated statements of operations and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended May 31, 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-71 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated October 29, 2020 (the "Prospectus") in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at May 31, 2018, 2019 and 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 28 to the Historical Financial Information which contains information about the dividends declared and paid by the Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
October 29, 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the issued consolidated financial statements of the Group for the Track Record Period ("Historical Financial Statements"). The consolidated financial statements of the Group for the Track Record Period have been prepared in accordance with the accounting policies which conform with the accounting principles generally accepted in the United States of America ("U.S. GAAP") and were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, certified public accountants registered in China in accordance with the standards of the Public Company Accounting Oversight Board (United States) relating to the consolidated financial statements and the effectiveness of internal control over financial reporting.

The Historical Financial Information is presented in United States Dollars ("US\$") and all values are rounded to the nearest thousand (US\$'000) except when otherwise indicated.

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

	Notes	As of May 31,		
		2018	2019	2020
		US\$	US\$	US\$
ASSETS				
Current assets				
Cash and cash equivalents		983,319	1,414,171	915,057
Restricted cash		47	43	—
Term deposits		107,741	108,672	284,793
Short-term investments	4	1,623,763	1,668,689	2,318,280
Accounts receivable, net of allowance of US\$485, US\$503 and US\$557 as of May 31, 2018, 2019 and 2020, respectively ...		3,179	3,300	4,178
Inventory, net		40,175	29,046	31,324
Prepaid expenses and other current assets, net of allowance of US\$914, US\$248 and US\$149 as of May 31, 2018, 2019 and 2020, respectively	5	182,095	199,677	199,404
Amounts due from related parties, current	20	1,595	42,644	3,384
Total current assets		2,941,914	3,466,242	3,756,420
Restricted cash, non-current		3,399	4,013	4,367
Property and equipment, net	6	449,592	532,015	672,455
Land use rights, net	7	3,785	6,405	6,037
Amounts due from related parties, non-current	20	2,226	1,204	22,709
Long-term deposits		40,099	49,742	62,116
Long-term prepaid rents		191	442	—
Intangible assets, net	8	8,544	13,935	10,246
Goodwill, net	9	31,729	79,614	80,366
Long-term investments, net	10	433,333	404,704	431,101
Deferred tax assets, non-current, net	18	43,323	61,467	63,324
Right-of-use assets	13	—	—	1,425,466
Other non-current assets		19,577	26,776	22,278
Total assets		<u>3,977,712</u>	<u>4,646,559</u>	<u>6,556,885</u>

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

		As of May 31,		
	Notes	2018	2019	2020
		US\$	US\$	US\$
LIABILITIES, MEZZANINE EQUITY AND EQUITY				
Current liabilities				
Accounts payable (including accounts payable of the consolidated variable interest entities without recourse to the Company of US\$39,279, US\$33,646 and US\$31,658 as of May 31, 2018, 2019 and 2020, respectively)		39,889	34,057	33,147
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated variable interest entities without recourse to the Company of US\$335,955, US\$518,937 and US\$581,576 as of May 31, 2018, 2019 and 2020, respectively)	12	373,537	576,521	634,619
Income taxes payable (including income taxes payable of the consolidated variable interest entities without recourse to the Company of US\$54,844, US\$79,067 and US\$87,331 as of May 31, 2018, 2019 and 2020, respectively)		67,233	94,071	101,385
Amounts due to related parties (including amounts due to related parties of the consolidated variable interest entities without recourse to the Company of US\$30, US\$472 and US\$1,590 as of May 31, 2018, 2019 and 2020, respectively)	20	30	472	1,590
Deferred revenue (including deferred revenue of the consolidated variable interest entities without recourse to the Company of US\$1,244,748, US\$1,268,318 and US\$1,317,645 as of May 31, 2018, 2019 and 2020, respectively)		1,270,195	1,301,103	1,324,384
Operating lease liabilities-current (including operating lease liabilities-current of the consolidated variable interest entities without recourse to the Company of nil, nil and US\$376,177 as of May 31, 2018, 2019 and 2020, respectively)	13	—	—	384,239
Total current liabilities		<u>1,750,884</u>	<u>2,006,224</u>	<u>2,479,364</u>
Deferred tax liabilities, non-current (including deferred tax liabilities, non-current of the consolidated variable interest entities without recourse to the Company of US\$13,782, US\$18,607 and US\$12,392 as of May 31, 2018, 2019 and 2020, respectively)	18	12,133	18,781	11,906
Long-term loan (including long-term loan of the consolidated variable interest entities without recourse to the Company of nil, nil and nil as of May 31, 2018, 2019 and 2020, respectively)	14	—	96,457	117,881
Operating lease liabilities (including operating lease liabilities of the consolidated variable interest entities without recourse to the Company of nil, nil and US\$ 1,054,149 as of May 31, 2018, 2019 and 2020, respectively)	13	—	—	1,077,923
Total liabilities		<u>1,763,017</u>	<u>2,121,462</u>	<u>3,687,074</u>

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

	Notes	As of May 31,		
		2018	2019	2020
		US\$	US\$	US\$
Commitments and contingencies (Note 21)				
Mezzanine equity				
Redeemable non-controlling interests	15	206,624	—	—
Equity				
Common shares (US\$0.01 par value; 300,000,000 shares authorized as of May 31, 2018, 2019 and 2020; 158,379,387, 158,801,714 and 158,801,714 shares issued as of May 31, 2018, 2019 and 2020; 158,319,910, 157,849,714 and 158,540,080 shares outstanding as of May 31, 2018, 2019 and 2020 respectively)	16	1,584	1,588	1,588
Treasury stock	16	(1)	(10)	(3)
Additional paid-in capital		129,059	428,959	456,088
Statutory reserves		263,518	305,529	380,078
Retained earnings		1,352,543	1,647,627	1,986,411
Accumulated other comprehensive income (loss)		244,886	(23,007)	(90,867)
Total New Oriental Education & Technology Group Inc. shareholders' equity		1,991,589	2,360,686	2,733,295
Non-controlling interests	22	16,482	164,411	136,516
Total equity		2,008,071	2,525,097	2,869,811
Total liabilities, mezzanine equity and equity		3,977,712	4,646,559	6,556,885

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

CONSOLIDATED STATEMENTS OF OPERATIONS

(All amounts in thousands, except for share and per share data, or otherwise noted)

	Notes	For the years ended May 31,		
		2018 US\$	2019 US\$	2020 US\$
Net revenues				
Educational programs and services		2,165,152	2,785,254	3,230,378
Books and other services		282,278	311,237	348,304
Total net revenues	23	2,447,430	3,096,491	3,578,682
Operating cost and expenses				
Cost of revenues		(1,065,740)	(1,376,269)	(1,588,899)
Selling and marketing		(324,249)	(384,287)	(445,259)
General and administrative		(794,482)	(1,034,028)	(1,145,521)
Total operating cost and expenses		(2,184,471)	(2,794,584)	(3,179,679)
Gain on disposal of a subsidiary		—	3,627	—
Operating income		262,959	305,534	399,003
Other income, net				
Interest income		84,838	97,530	116,117
Interest expense		—	(1,615)	(4,627)
Realized gain from long-term investments		7,366	26,379	407
Impairment loss from long-term investments		(980)	(5,919)	(31,750)
Loss from fair value change of long-term investments		—	(104,636)	(18,451)
Miscellaneous income (loss), net		2,841	(1,424)	27,137
Income before income taxes and loss from equity method investments		357,024	315,849	487,836
Provision for income taxes:				
Current	18	(72,785)	(103,031)	(142,992)
Deferred	18	13,377	17,317	8,630
Provision for income taxes		(59,408)	(85,714)	(134,362)
(Loss) gain from equity method investments		(379)	(2,289)	1,385
Net income		297,237	227,846	354,859
Less: Net income (loss) attributable to non-controlling interests		1,107	(10,219)	(58,474)
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders		296,130	238,065	413,333
Net income per common share				
- Basic	19	1.87	1.50	2.61
- Diluted	19	1.87	1.50	2.59
Weighted average shares used in calculating basic and diluted net income per common share				
- Basic	19	158,168,794	158,293,890	158,429,576
- Diluted	19	158,556,500	159,039,345	159,536,890

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Net income	297,237	227,846	354,859
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustment	79,293	(190,358)	(67,529)
Unrealized gain (loss) on available-for-sale investments, net of tax effect of US\$8,825, US\$3,463 and US\$60 for the years ended May 31, 2018, 2019 and 2020, respectively	129,545	19,483	(748)
Other comprehensive income (loss), net of tax	208,838	(170,875)	(68,277)
Comprehensive income	506,075	56,971	286,582
Comprehensive income (loss) attributable to non-controlling interests	4,220	(11,130)	(58,891)
Comprehensive income attributable to New Oriental Education & Technology Group Inc.'s shareholders	<u>501,855</u>	<u>68,101</u>	<u>345,473</u>

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

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts in thousands, except for share data)

	Common shares		Additional paid-in capital	Treasury stock	Accumulated other comprehensive income	Statutory reserves	Retained earnings	Total New Oriental Education & Technology Group Inc. shareholders' equity	Non-controlling interests	Total shareholders' equity
	Number	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of June 1, 2017	157,687,444	1,584	249,126	(7)	39,161	219,975	1,171,109	1,680,948	39,130	1,720,078
Reissuance of treasury stock for the exercises of options	500	—	1	—	—	—	—	1	—	1
Reissuance of treasury stock for non-vested equity shares ("NES")	631,966	—	(6)	6	—	—	—	—	—	—
Share-based compensation expenses (Note 17)	—	—	57,443	—	—	—	—	57,443	—	57,443
Transfer to statutory reserves (Note 25)	—	—	—	—	—	43,543	(43,543)	—	—	—
Dividend declared (a) (Note 28)	—	—	—	—	—	—	(71,153)	(71,153)	(231)	(71,384)
Net income	—	—	—	—	—	—	296,130	296,130	1,107	297,237
Foreign currency translation adjustment	—	—	—	—	76,344	—	—	76,344	2,949	79,293
Unrealized gain on available-for-sale investments, net of tax effect of US\$8,825	—	—	—	—	129,381	—	—	129,381	164	129,545
Impact from reclassification of non-controlling interests and new non-controlling interests recognized in acquisitions	—	—	(113,784)	—	—	—	—	(113,784)	2,015	(111,769)
Capital reduction of non-controlling interests	—	—	(63,721)	—	—	—	—	(63,721)	(28,652)	(92,373)
Balance as of May 31, 2018 . . .	<u>158,319,910</u>	<u>1,584</u>	<u>129,059</u>	<u>(1)</u>	<u>244,886</u>	<u>263,518</u>	<u>1,352,543</u>	<u>1,991,589</u>	<u>16,482</u>	<u>2,008,071</u>

- (a) On July 25, 2017, the Company declared a special cash dividend in the amount of US\$0.45 per American Depositary Shares (the "ADS"). The aggregate amount of cash dividend paid was US\$71,153, which was funded by retained earnings. The dividend was fully paid on October 6, 2017 to shareholders of record at the close of business on September 1, 2017.

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED

(All amounts in thousands, except for share data)

	Common shares		Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Statutory reserves	Retained earnings	Total New Oriental Education & Technology Group Inc. shareholders' equity	Non-controlling interests	Total shareholders' equity
	Number	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of May 31, 2018	158,319,910	1,584	129,059	(1)	244,886	263,518	1,352,543	1,991,589	16,482	2,008,071
Issuance of treasury stock and common shares for NES	481,804	4	(5)	1	—	—	—	—	—	—
Shares repurchase	(952,000)	—	(55,952)	(10)	—	—	—	(55,962)	—	(55,962)
Share-based compensation expenses (Note 17)	—	—	71,336	—	—	—	—	71,336	—	71,336
Transfer to statutory reserves (Note 25)	—	—	—	—	—	42,011	(42,011)	—	—	—
Net income	—	—	—	—	—	—	238,065	238,065	(10,219)	227,846
Foreign currency translation adjustment	—	—	—	—	(188,982)	—	—	(188,982)	(1,376)	(190,358)
Unrealized gain on available-for-sale investments, net of tax effect of US\$3,463	—	—	—	—	19,018	—	—	19,018	465	19,483
Capital contribution from non-controlling interests	—	—	15,181	—	—	—	—	15,181	5,317	20,498
Change in non-controlling interests resulting from the initial public offering (the "IPO") of Koolearn Technology Holding Limited ("Koolearn Holding"), net of issuance cost	—	—	139,211	—	—	—	—	139,211	94,136	233,347
Reclassification of redeemable non-controlling interests	—	—	145,690	—	—	—	—	145,690	60,934	206,624
Purchase of non-controlling interests	—	—	(15,190)	—	—	—	—	(15,190)	(1,696)	(16,886)
Non-controlling interests arising from acquisitions	—	—	—	—	—	—	—	—	288	288
Disposal of a subsidiary	—	—	(371)	—	—	—	—	(371)	80	(291)
Cumulative-effect adjustment upon adoption of ASU 2016-01	—	—	—	—	(97,929)	—	97,929	—	—	—
Cumulative-effect adjustment upon adoption of ASC Topic 606	—	—	—	—	—	—	1,101	1,101	—	1,101
Balance as of May 31, 2019	<u>157,849,714</u>	<u>1,588</u>	<u>428,959</u>	<u>(10)</u>	<u>(23,007)</u>	<u>305,529</u>	<u>1,647,627</u>	<u>2,360,686</u>	<u>164,411</u>	<u>2,525,097</u>

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED

(All amounts in thousands, except for share data)

	Common shares		Additional paid-in capital	Treasury stock	Accumulated other comprehensive loss	Statutory reserves	Retained earnings	Total New Oriental Education & Technology Group Inc. shareholders' equity	Non-controlling interests	Total shareholders' equity
	Number	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of May 31, 2019 . . .	157,849,714	1,588	428,959	(10)	(23,007)	305,529	1,647,627	2,360,686	164,411	2,525,097
Issuance of treasury stock and common shares for NES	690,366	—	(7)	7	—	—	—	—	—	—
Share-based compensation expenses (Note 17)	—	—	41,326	—	—	—	—	41,326	20,731	62,057
Exercise of share options in Koolearn Holding	—	—	—	—	—	—	—	—	3,629	3,629
Transfer to statutory reserves (Note 25)	—	—	—	—	—	74,549	(74,549)	—	—	—
Net income	—	—	—	—	—	—	413,333	413,333	(58,474)	354,859
Foreign currency translation adjustment	—	—	—	—	(67,112)	—	—	(67,112)	(417)	(67,529)
Unrealized gain on available-for-sale investments, net of tax effect of US\$60	—	—	—	—	(748)	—	—	(748)	—	(748)
Purchase of non-controlling interests	—	—	(20,045)	—	—	—	—	(20,045)	6,675	(13,370)
Share option gain	—	—	5,752	—	—	—	—	5,752	—	5,752
Capital contribution from non-controlling interests	—	—	103	—	—	—	—	103	(39)	64
Balance as of May 31, 2020 . . .	<u>158,540,080</u>	<u>1,588</u>	<u>456,088</u>	<u>(3)</u>	<u>(90,867)</u>	<u>380,078</u>	<u>1,986,411</u>	<u>2,733,295</u>	<u>136,516</u>	<u>2,869,811</u>

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

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts in thousands)

	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Cash flows from operating activities			
Net income	297,237	227,846	354,859
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property and equipment	77,081	110,042	146,310
Amortization of intangible assets	1,839	3,699	4,530
Amortization of land use rights	110	263	162
Loss on disposal of property and equipment	2,032	10,685	4,866
Gain on disposal of a subsidiary	—	(3,627)	—
Goodwill impairment	—	5,245	—
Impairment loss from long-term investments	980	5,919	31,750
Realized gain from long-term investments	(7,366)	(26,379)	(407)
Loss from fair value change of long-term investments	—	104,636	18,451
Share-based compensation expenses	57,443	71,336	62,057
Allowance for doubtful accounts	576	146	329
Loss (gain) from equity method investments	379	2,289	(1,385)
Deferred income taxes	(14,821)	(17,273)	(8,566)
Changes in operating assets and liabilities			
Accounts receivable	767	(509)	(1,422)
Inventory	(6,316)	6,032	(3,278)
Prepaid expenses and other current assets	(51,738)	(23,624)	(40,713)
Amounts due from related parties	4,250	(3,022)	14,106
Long-term deposits	(14,300)	(12,622)	(14,266)
Long-term prepaid rents	1,185	858	658
Operating lease rights-of-use assets	—	—	(170,871)
Accounts payable	13,728	(2,747)	82
Accrued expenses and other current liabilities	68,226	(18,321)	63,667
Income taxes payable	15,473	27,210	56,372
Amounts due to related parties	(21)	670	1,152
Deferred revenue	334,383	336,896	61,930
Operating lease liabilities	—	—	224,082
Net cash provided by operating activities	781,127	805,648	804,455
Cash flows from investing activities			
Purchase of term deposits	(117,166)	(104,178)	(249,048)
Proceeds from maturity of term deposits	212,690	95,402	69,740
Payments for short-term investments	(1,250,239)	(3,595,634)	(2,964,402)
Proceeds from maturity of short-term investments	1,025,721	3,432,981	2,248,486
Purchase of property and equipment	(214,255)	(269,140)	(309,548)
Proceeds from disposal of property and equipment	9,812	17,238	24,477
Payments for long-term investments	(67,350)	(128,970)	(92,087)
Proceeds from disposal of long-term investments	—	46,956	8,480

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(All amounts in thousands)

	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Business acquisitions, net of cash acquired of US\$12,210, US\$2,697 and US\$1,419 for the years ended May 31, 2018, 2019 and 2020, respectively (Note 3)	(999)	(36,367)	1,073
Purchase of land use rights	(5,357)	(7,738)	—
Loans provided to related parties	—	(61,155)	(7,128)
Repayment of loan provided to related parties	—	45,682	712
Disposal of subsidiaries, net of cash disposed of nil, US\$12,050 and US\$665 for the years ended May 31, 2018, 2019 and 2020, respectively	—	(9,789)	12,875
Net cash used in investing activities	<u>(407,143)</u>	<u>(574,712)</u>	<u>(1,256,370)</u>
Cash flows from financing activities			
Proceeds from issuances of common shares upon exercise of share options	1	—	3,629
Proceeds from issuance of ordinary shares relating to the IPO of Koolearn Holding	—	233,347	—
Cash paid for employees' individual income taxes on withheld shares from exercise of NES	(7,241)	(12,085)	(9,853)
Contingent consideration payments made after a business combination	—	—	(18,332)
Cash paid for dividend	(71,153)	—	—
Proceeds from long-term loan	—	96,457	20,000
Cash paid for shares repurchase	—	(55,962)	—
Capital contribution from non-controlling interests	93,159	20,498	64
Purchase of non-controlling interests	(89,647)	(15,606)	(13,370)
Net cash (used in) provided by financing activities	<u>(74,881)</u>	<u>266,649</u>	<u>(17,862)</u>
Effects of exchange rate changes	<u>42,992</u>	<u>(66,123)</u>	<u>(29,026)</u>
Net change in cash, cash equivalents and restricted cash	342,095	431,462	(498,803)
Cash, cash equivalents and restricted cash at beginning of year	644,670	986,765	1,418,227
Cash, cash equivalents and restricted cash at end of year	<u>986,765</u>	<u>1,418,227</u>	<u>919,424</u>
Supplement disclosure of cash flow information:			
Income taxes paid	57,005	75,346	135,678
Interests paid	—	833	4,665
Non-cash investing and financing activities			
Payable for investments and acquisitions	5,420	21,962	3,917
Payable for purchase of property and equipment	45,590	44,445	65,335
Receivable from the disposal of a subsidiary	<u>—</u>	<u>13,760</u>	<u>—</u>

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

**NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018, 2019 AND 2020**

(All amounts in thousands, except for share and per share data, or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

New Oriental Education & Technology Group Inc. (the “Company”) was continued and registered in the Cayman Islands. The Company, its consolidated subsidiaries and its variable interest entities (the “VIEs”) and the VIEs’ subsidiaries and schools are collectively referred to as the “Group”.

The Group provides educational services in the People’s Republic of China (the “PRC”) primarily under the “New Oriental” brand. The Group offers a wide range of educational programs, services and products, consisting primarily of K-12 after-school tutoring (“K-12 AST”), test preparation and other courses, primary and secondary school education, online education, content development and distribution, overseas study consulting services, pre-school education and study tour.

As of May 31, 2020, details of the Company’s major subsidiaries, its VIEs and the VIEs’ major subsidiaries and schools were as follows:

<u>Name</u>	<u>Date of incorporation or acquisition</u>	<u>Place of incorporation (or establishment)/ operation</u>	<u>Legal ownership</u>	<u>Principal activity</u>
Major subsidiaries of the Company:				
Beijing Decision Education & Consulting Company Limited (“Beijing Decision”)	April 20, 2005	PRC	100%	Educational technology and management services
Beijing Hewstone Technology Company Limited (“Beijing Hewstone”)	April 20, 2005	PRC	100%	Educational software development
Elite Concept Holdings Limited (“Elite Concept”)	December 3, 2007	Hong Kong	100%	Educational consulting
Winner Park Limited (“Winner Park”)	December 9, 2008	Hong Kong	100%	Educational consulting
Smart Shine International Limited (“Smart Shine”)	December 9, 2008	Hong Kong	100%	Educational consulting
Beijing Pioneer Technology Company Limited (“Beijing Pioneer”)	January 8, 2009	PRC	100%	Educational software development
Beijing Smart Wood Software Technology Company Limited (“Beijing Smart Wood”)	December 21, 2011	PRC	100%	Educational consulting and software development

Name	Date of incorporation or acquisition	Place of incorporation (or establishment)/ operation	Legal ownership	Principal activity
Koolearn Holding	February 7, 2018	Cayman Islands	53.22%	Online education service
New Oriental Xuncheng Technology (HK) Limited ("Koolearn Tech")	March 2, 2018	Hong Kong	53.22%	Online education service
Beijing Dexin Dongfang Network Technology Co., Ltd. ("Dexin Dongfang")	March 21, 2018	PRC	53.22%	Educational consulting and software development
Zhuhai Chongsheng Heli Network Technology Co., Ltd ("Zhuhai Chongsheng")	July 23, 2019	PRC	53.22%	Educational consulting and software development
VIEs of the Company:				
New Oriental Education & Technology Group Co., Ltd ("New Oriental China")	August 2, 2001	PRC	N/A	Education consulting, software development and distributions and other services
Beijing New Oriental Xuncheng Network Technology Co., Ltd. ("Xuncheng")	March 11, 2005	PRC	N/A	Online education service
Major subsidiaries and schools of the VIEs:				
Beijing Haidian District Privately-Funded New Oriental School ("Beijing Haidian School")	October 5, 1993	PRC	N/A	Language training and test preparation
Beijing New Oriental Yangzhou Foreign Language School	June 6, 2002	PRC	N/A	Primary and secondary school education
Wuhan New Oriental Training School	April 28, 2002	PRC	N/A	Language training and test preparation
Xi'an Yanta District New Oriental School	November 26, 2002	PRC	N/A	Language training and test preparation
Nanjing Gulou New Oriental Advanced Study School	November 28, 2002	PRC	N/A	Language training and test preparation
Beijing New Oriental Dogwood Cultural Communications Co., Ltd. ("Dogwood")	May 16, 2003	PRC	N/A	Content development and distribution
Beijing New Oriental Vision Overseas Consultancy Co., Ltd.	February 19, 2004	PRC	N/A	Overseas study consulting service
Hangzhou New Oriental Advanced Study School	July 21, 2005	PRC	N/A	Language training and test preparation
Beijing Chaoyang District Kindergarten of Stars	November 20, 2007	PRC	N/A	Pre-school education

No statutory financial statements have been prepared for the Company since the Company is incorporated in a jurisdiction where there is no statutory audit requirement.

The VIE arrangements

The PRC laws and regulations currently require any foreign entity that invests in the education business in China to be an educational institution with relevant experience in providing educational services outside of China. The Company's offshore holding companies are not educational institutions and do not provide educational services outside of China. In addition, in the PRC, foreign ownership of high schools for students in grades ten to twelve is restricted and foreign ownership of primary and middle schools for students in grades one to nine is prohibited. Accordingly, the Company's offshore holding companies are not allowed to directly own and operate schools in China. The Company conducts substantially all of its education business in China through contractual arrangements with its VIEs, New Oriental China and its subsidiaries and schools and Xuncheng and its subsidiaries. Since the operations of New Oriental China and its subsidiaries and schools and Xuncheng and its subsidiaries are closely interrelated and almost indistinguishable from one another, the risks and rewards associated with their operations are substantially the same. In addition, the Company consolidates New Oriental China, its subsidiaries and schools, Xuncheng and its subsidiaries as disclosed. Therefore, the Company aggregates the disclosures related to New Oriental China, its subsidiaries and schools, and Xuncheng and its subsidiaries as the VIEs in the Company's consolidated financial statements. The VIEs hold the requisite licenses and permits necessary to conduct the Company's education business. In addition, the VIEs hold leases and other assets necessary to operate the Company's schools and learning centers, employ teachers and generate substantially all of the Company's revenues.

VIE Arrangements between New Oriental China and the Company's PRC subsidiaries

The Company and its wholly owned subsidiaries in China (the "WFOEs") have entered into the following contractual arrangements with New Oriental China, New Oriental China's subsidiaries and schools and New Oriental China's shareholders that enable the Company to (1) have power to direct the activities that most significantly affects the economic performance of the VIEs, (2) receive substantially all of the economic benefits of the VIEs that could be significant to the VIEs and (3) have an exclusive option to purchase all or part of the equity interests in New Oriental China, when and to the extent permitted by PRC law, or request the existing shareholder of New Oriental China to transfer all or part of the equity interest in New Oriental China to another PRC person or entity designated by us at any time in the Company's discretion. Accordingly, the Company is considered the primary beneficiary of the VIE and has consolidated the VIE's financial results of operations, assets and liabilities in the Company's consolidated financial statements. In making the conclusion that the Company is the primary beneficiary of the VIE, the Company believes the Company's rights under the terms of the exclusive option agreement provide it with the substantive kick-out rights. More specifically, the Company believes the terms of the exclusive option agreement are valid, binding and enforceable under the PRC laws and regulations currently in effect. The Company also believes that the minimum amount of consideration permitted by the applicable PRC law to exercise the option does not represent a financial barrier or disincentive for the Company to currently exercise its rights under the exclusive option agreement.

A simple majority vote of the Company's board of directors is required to pass a resolution to exercise the Company's rights under the exclusive option agreement, for which Mr. Michael Minhong Yu ("Mr. Yu")'s consent is not required. The Company's rights under the exclusive option agreement give the Company the power to control the shareholders of New Oriental China and thus the power to direct the activities that most significantly impact the schools' economic performance given that New Oriental China has the power to

direct the activities of the schools via its sponsorship interest. In addition, the Company's rights under the power of attorney also reinforce the Company's abilities to direct the activities that most significantly impact the VIE's economic performance. The Company also believes that this ability to exercise control ensures that the VIE will continue to execute and renew service agreements and pay service fees to the Company. By charging service fees in whatever amounts the Company deems fit, and by ensuring that service agreements are executed and renewed indefinitely, the Company has the rights to receive substantially all of the economic benefits from the VIE.

Service agreements. There are four types of service agreements: (i) trademark license agreements, (ii) new enrollment system development service agreements, (iii) other operating service agreements, and (iv) sale of educational software agreements.

- (i) Trademark license agreements. Pursuant to the trademark license agreement dated May 13, 2006 between the Company as the licensor and New Oriental China as the licensee, the Company has licensed the trademarks to New Oriental China for its use in China. The Company has also allowed New Oriental China to enter into sub-license agreements with its subsidiaries and schools pursuant to which each of the subsidiaries and schools may use the trademarks in China by paying license fees. This license is valid from May 14, 2006 to December 31, 2050, subject to the renewal every ten years upon the expiration of the trademark registration.
- (ii) New enrollment system development service agreements. Beijing Decision has entered into new enrollment system development service agreements with the schools of New Oriental China, under which Beijing Decision agreed to provide new enrollment system development and regular maintenance services to those schools of New Oriental China for a fee equal to the applicable fee rate multiplied by the number of new student enrollments. These agreements can be renewed by both parties to the agreements.
- (iii) Other operating service agreements. Pursuant to operating service agreements between certain WFOEs and the subsidiaries or schools of New Oriental China, the WFOEs have agreed to provide certain operating services to the subsidiaries or schools of New Oriental China for fees that are calculated based on a percentage, ranging from 2.0% to 6.0%, of respective revenues of each of the subsidiaries and schools. A majority of these agreements provide unlimited two-year or five-year automatic renewal without consent of the WFOEs. The remaining agreements can be renewed by both parties to the agreements.
- (iv) Sale of educational software agreements. Ten WFOEs, namely Beijing Hewstone, Beijing Pioneer, Beijing Smart Wood, Beijing Joy Tend Technology Company Limited ("Beijing Joy Trend"), Beijing Magnificence Technology Company Limited ("Beijing Magnificence"), Beijing Top Technology Company Limited ("Beijing Top"), Beijing Shenghe Technology Company Ltd. ("Beijing Shenghe"), Beijing Right Time Technology Company Limited ("Beijing Right Time"), Beijing Sincerity Technology Company Limited and Beijing Jinghong Software Technology Company Ltd. ("Beijing Jinghong"), entered into agreements whereby the WFOEs sell various self-developed educational software to the subsidiaries or schools of New Oriental China. Except for four agreements that are silent on renewal, these agreements provide unlimited two-year automatic renewal terms, and the subsidiaries and schools of New Oriental China cannot terminate the agreements without the consent of the WFOEs in China.

Master exclusive service agreement. On September 19, 2014, Beijing Pioneer entered into a master exclusive service agreement with New Oriental China to enable the Company's wholly owned subsidiaries

in China to receive substantially all of the economic benefits of New Oriental China and its subsidiaries and schools. Under the master exclusive service agreement, Beijing Pioneer has the exclusive rights to provide or designate any entities affiliated with it to provide New Oriental China and its subsidiaries and schools the technical and business support services, including new enrollment system development service, sale of educational software and other operating services. Each service provider specified in the service agreement (iv) has the rights to determine the fees associated with the services it provides based on the technical difficulty and complexity of the services and the actual labor costs it incurs for providing the services during the relevant period. The term of this agreement is ten years and will be automatically extended upon expiration. Beijing Pioneer may terminate the agreement at any time with a 30-day prior written notice to New Oriental China, whereas none of New Oriental China and its subsidiaries and schools can terminate this agreement. The various existing service agreements mentioned in service agreements (i)~(iv) will remain effective after the inclusion of the master exclusive service agreement; however, if they have any conflict with the terms and conditions of the master exclusive service agreement, the master exclusive service agreement will prevail. The master exclusive service agreement was effective on September 19, 2014.

Equity pledge agreements. Pursuant to the equity pledge agreements dated May 25, 2006 among New Oriental China, all of the shareholders of New Oriental China, Beijing Hewstone and Beijing Decision, each shareholder of New Oriental China agreed to pledge his or its equity interest in New Oriental China to Beijing Hewstone and Beijing Decision to secure the performance of the VIEs' obligations under the existing service agreements and any such agreements to be entered into in the future. The shareholders of New Oriental China agreed not to transfer, sell, pledge, dispose of or otherwise create any encumbrance on their equity interests in New Oriental China without the prior written consent of Beijing Hewstone and Beijing Decision.

In January 2012, ten former shareholders of New Oriental China completed the transfer, for no consideration, of all of their equity interests in New Oriental China to Beijing Century Friendship Education Investment Co., Ltd. ("Century Friendship"), a PRC domestic enterprise controlled by the Company's founder and chairman, Mr. Yu. Prior to the transfer, Century Friendship had held 53% of the equity interests in New Oriental China while the ten former shareholders of New Oriental China held the remaining equity interests. In connection to the transfer, five new equity pledge agreements dated April 23, 2012 were entered into among New Oriental China, Century Friendship and five WFOEs, whereby Century Friendship has agreed to pledge all of its equity interests in New Oriental China to the WFOEs to secure the VIEs' performance of their obligations under the trademark license agreements, new enrollment system development service agreements, other operating service agreements and sale of educational software agreements. Century Friendship has agreed not to transfer, sell, pledge, dispose of or otherwise create any encumbrance on its equity interests in New Oriental China without the prior written consents of the WFOEs. The terms of the April 2012 equity pledge agreements are substantially the same as the 2006 equity pledge agreements.

In February 2017, as part of efforts to streamline the corporate structure, the Group removed Shanghai Smart Words Software Technology Co., Ltd. ("Shanghai Smart Words") as a party to the contractual arrangements with New Oriental China and its subsidiaries and schools and the shareholders. The rights and obligations of Shanghai Smart Words under these contractual arrangements have been assumed by Beijing Decision. The April 2012 equity pledge agreements have been amended to reflect the foregoing change while the terms of these agreements remain unchanged. The equity pledges of Century Friendship under the amended agreements have been registered with the Haidian District, Beijing branch of the State Administration of Market Regulation (the "SAMR").

Exclusive option agreements. Pursuant to the exclusive option agreements entered into on various dates, as amended on May 25, 2006, among the Company, New Oriental China and its shareholders, the shareholders of New Oriental China are obligated to sell to the Company, and the Company has an exclusive, irrevocable and unconditional rights to purchase, or cause the shareholders of New Oriental China to sell to the Company's designated party, in the Company's sole discretion, part or all of the shareholders' equity interests in New Oriental China when and to the extent that applicable PRC law permits the Company to own part or all of such equity interests in New Oriental China. In addition, pursuant to the exclusive option agreements, the Company has an exclusive, irrevocable and unconditional right to request any existing shareholders of New Oriental China to transfer all or part of the equity interest in New Oriental China held by such shareholder to another PRC person or entity designated by the Company at any time in the discretion. The price to be paid by the Company or a PRC person or entity designated by the WFOEs will be the minimum amount of consideration permitted by applicable PRC law at the time when such share transfer occurs. As a result of the ten former shareholders of New Oriental China transferring all of their equity interests in New Oriental China to Century Friendship in January 2012, Century Friendship executed a new option agreement with Shanghai Smart Words and New Oriental China on April 23, 2012. The terms of this new option agreement are substantially the same as the 2006 exclusive option agreements.

On February 16, 2017, Beijing Decision entered into a new option agreement with Century Friendship and New Oriental China, replacing the previous option agreement dated April 23, 2012. Pursuant to the current option agreement, Century Friendship is obligated to sell to Beijing Decision, and Beijing Decision has an exclusive, irrevocable and unconditional rights to purchase from Century Friendship, in its sole discretion, part or all of Century Friendship's equity interests in New Oriental China when and to the extent that applicable PRC law permits it to own part or all of the equity interest in New Oriental China. In addition, Beijing Decision has an exclusive option to require Century Friendship to transfer all or part of Century Friendship's equity interest in New Oriental China to another PRC person or entity designated by Beijing Decision at any time in its discretion. The purchase price to be paid by Beijing Decision will be the minimum amount of consideration permitted by applicable PRC law at the time when such share transfer occurs.

Power of Attorney. On December 3, 2012, Century Friendship, in the capacity of the sole shareholder of New Oriental China, executed a proxy agreement and power of attorney with Beijing Pioneer, which is one of the Company's wholly owned subsidiaries in China, and New Oriental China, whereby Century Friendship irrevocably appoints and constitutes Beijing Pioneer as its attorney-in-fact to exercise on Century Friendship's behalf any and all rights that Century Friendship has in respect of its equity interests in New Oriental China. This proxy agreement and power of attorney became effective on December 3, 2012 and replaces the powers of attorney executed by Century Friendship on April 23, 2012. The proxy agreement and power of attorney will remain effective as long as New Oriental China exists. Century Friendship does not have the rights to terminate the proxy agreement and power of attorney or revoke the appointment of the attorney-in-fact without the prior written consent of Beijing Pioneer.

VIE Arrangements between Dexin Dongfang and Xuncheng

On May 10, 2018, Dexin Dongfang, a wholly-owned subsidiary of Koolearn Holding, entered into certain contractual arrangements (the "Contractual Arrangements") with Xuncheng and the shareholders of Xuncheng, which enable Koolearn Holding to obtain control over Xuncheng, Beijing Kuxue Huisi Network Technology Co., Ltd. ("Kuxue Huisi") and Beijing Dongfang Youbo Network Technology Co., Ltd. ("Dongfang Youbo") (together the "Xuncheng VIE entities").

The Contractual Arrangements include an Exclusive Management Consultancy and Business Cooperation Agreement, an Exclusive Call Option Agreement, an Equity Pledge Agreement, a Powers of Attorney and Dispute resolution and Letters of undertaking. The terms of these contractual agreements between Dexin Dongfang and Xuncheng are substantially similar to those agreements of New Oriental China described in the preceding paragraphs.

Through these Contractual Agreements, Dexin Dongfang has the ability to (1) expose, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over Xuncheng VIE entities; (2) exercise equity holders' controlling voting rights of Xuncheng VIE entities; (3) receive substantially all of the economic benefits of Xuncheng VIE entities in consideration for the business support, technical and consulting services provided by Dexin Dongfang; (4) obtain an irrevocable and exclusive right to purchase all or part of equity interests in Xuncheng VIE entities from the respective equity holders at nil consideration or a minimum purchase price permitted under the PRC Laws; (5) obtain a pledge over the entire equity interest of Xuncheng from their equity holders as collateral security for all of Xuncheng VIE entities' payments.

On October 10, 2019, Dexin Dongfang and Zhuhai Chongsheng, a wholly-owned PRC subsidiary of Koolearn Holding entered into a supplemental agreement with Xuncheng and its subsidiaries and all of its shareholders. Pursuant to the supplemental agreement, Zhuhai Chongsheng joined as a party to the contractual agreements between Dexin Dongfang, Xuncheng and its subsidiaries and shareholders and assumed the same rights and shared the same obligations of Dexin Dongfang under the contractual agreements.

On October 10, 2019, Dongfang Youbo, a subsidiary of Xuncheng, executed a letter of acceptance whereby it assumed the same rights and obligations as Xuncheng's subsidiary under the exclusive management consultancy and business cooperation agreement.

Risks in relation to the VIE structure

The Company believes that the contractual arrangements with its VIEs and their respective shareholders are in compliance with the PRC laws and regulations and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of the PRC laws and regulations, the PRC government could:

- revoke the business and operating licenses of the Company's PRC subsidiaries and the VIEs;
- discontinue or restrict the operations of any related-party transactions between the Company's PRC subsidiaries and the VIEs;
- limit the Group's business expansion in China by way of entering into contractual arrangements;
- impose fines or other requirements with which the Company's PRC subsidiaries and the VIEs may not be able to comply;
- require the Company or the Company's PRC subsidiaries or the VIEs to restructure the relevant ownership structure or operations; or
- restrict or prohibit the Company's use of the proceeds of the additional public offering to finance the Group's business and operations in China.

The Company's ability to conduct its education business may be negatively affected if the PRC government were to carry out of any the aforementioned actions. As a result, the Company may not be able to

consolidate its VIEs in its consolidated financial statements as it may lose the ability to exert effective control over the VIEs and their respective shareholders and it may lose the ability to receive economic benefits from the VIEs. The Company, however, does not believe such actions would result in the liquidation or dissolution of the Company, its PRC subsidiaries or the VIEs.

Mr. Yu is the controlling shareholder of Century Friendship, which owns all of the equity interests in New Oriental China, which in turn owns all of the equity interests in Xuncheng, and Mr. Yu is also a beneficial owner of the Company. The interests of Mr. Yu as the beneficial owner of the VIEs may differ from the interests of the Company as a whole, since Mr. Yu is one of the beneficial shareholders of the Company, holding 12.46% of the total common shares outstanding as of May 31, 2020. The Company cannot assure that when conflicts of interest arise, Mr. Yu will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest Mr. Yu may encounter in his capacity as a beneficial owner and director of the VIEs, on the one hand, and as a beneficial owner and director of the Company, on the other hand. The Company believes Mr. Yu will not act contrary to any of the contractual arrangements and the exclusive option agreement provides the Company with a mechanism to remove Mr. Yu as a beneficial shareholder of the VIEs should he act to the detriment of the Company. The Company relies on Mr. Yu, as a director and the chairman of the Company, to fulfill his fiduciary duties and abide by laws of the PRC and Cayman Islands and act in the best interest of the Company. If the Company cannot resolve any conflicts of interest or disputes between the Company and Mr. Yu, the Company would have to rely on legal proceedings, which could result in disruption of its business, and there is substantial uncertainty as to the outcome of any such legal proceedings.

In addition, the current shareholders of New Oriental China and Xuncheng are also beneficial owners of the Company and therefore, have no current interest in seeking to act contrary to the contractual arrangements. However, to further protect the investors' interest from any risk that the shareholders of New Oriental China may act contrary to the contractual arrangements, the Company, through Beijing Pioneer, entered into an irrevocable power of attorney with Century Friendship on December 3, 2012, which replaces the powers of attorney executed by Century Friendship on April 23, 2012. Through the power of attorney, Century Friendship entrusted Beijing Pioneer as its proxy to exercise its rights as the shareholder of New Oriental China with respect to an aggregate of 100% of the equity interests in New Oriental China.

The following financial statement balances and amounts of the VIEs were included in the accompanying consolidated financial statements after the elimination of intercompany balances and transactions among the offshore companies, WFOEs and the VIEs in the Group:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Total current assets	2,081,374	2,179,752	2,385,315
Total non-current assets	750,316	957,650	2,463,751
Total assets	2,831,690	3,137,402	4,849,066
Total current liabilities	1,674,857	1,900,440	2,395,977
Total non-current liabilities	13,782	18,607	1,066,541
Total liabilities	1,688,639	1,919,047	3,462,518
	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Net revenues	2,417,203	3,056,537	3,453,555
Net income	479,190	575,614	575,210
Net cash provided by operating activities	711,591	536,631	675,015
Net cash used in investing activities	(429,265)	(450,569)	(780,310)
Net cash used in financing activities	(96,429)	(27,691)	(45,188)

The VIEs contributed an aggregate of 98.8%, 98.7% and 96.5% of the consolidated net revenues for the years ended May 31, 2018, 2019 and 2020, respectively. The Company's operations not conducted through contractual arrangements with the VIEs primarily consist of the lease of its commercial property. As of the years ended May 31, 2018, 2019 and 2020, the VIEs accounted for an aggregate of 71.2%, 67.5% and 74.0%, respectively, of the consolidated total assets, and 95.8%, 90.5% and 93.9%, respectively, of the consolidated total liabilities. The assets not associated with the VIEs were primarily consist of cash and cash equivalents, prepaid expenses, short-term investments and long-term investments.

There are no consolidated VIEs' assets that are collateralized for the VIEs' obligations and can only be used to settle the VIEs' obligations. There are no creditors (or beneficial interest holders) of the VIEs that have recourse to the general credit of the Company or any of its consolidated subsidiaries. There are no terms in any arrangements, considering both explicit arrangements and implicit variable interests that 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 its VIEs through loans to the shareholders of the VIEs or entrustment loans to the VIEs.

Relevant PRC laws and regulations restrict the VIEs from transferring a portion of its net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends. Disclosure of restricted net assets are set out in Note 26.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIEs and the VIEs' subsidiaries and schools. The Company and its WFOEs have entered into contractual arrangements with the VIEs and its shareholders, which enable the Company to (1) have power to direct activities that most significantly affect the economic performance of the VIEs, and (2) receive the economic benefits of the VIEs that could be significant to the VIEs. Accordingly, the Company is considered the primary beneficiary of the VIEs and has consolidated the VIEs' financial results of operations, assets and liabilities in the Company's consolidated financial statements. All inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and revenue and expenses in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group's consolidated financial statements include the purchase price allocation relating to business acquisitions, the valuation allowance for deferred tax assets, economic lives and impairment of property and equipment, impairment of goodwill, intangible assets, long-lived assets and long-term investments, fair value assessment of long-term investments, refund liability, discount rate for leases, fair value of underlying ordinary shares of Koolearn Holding before its IPO and mezzanine equity. Actual results could differ from those estimates.

Business combinations

Business combinations are recorded using the acquisition method of accounting. The purchase price of the acquisition is allocated to the tangible assets, liabilities, identifiable intangible assets acquired and non-controlling interest, if any, based on their estimated fair values as of the acquisition date. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition-related expenses and restructuring costs are expensed as incurred.

Consideration transferred in a business combinations is measured at the fair value as of the date of acquisition. 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 Group remeasures the previously held equity interest 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 original maturities of three months or less when purchased.

Restricted cash

Restricted cash represents Renminbi (“RMB”) deposit in bank accounts as deposits for establishing new subsidiaries and schools. Restricted cash is classified as either current or non-current based on when the funds will be released in accordance with the terms of the respective agreement.

Term deposits

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

Short-term investments

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.

The Group reviews its held-to-maturity 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 cost 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 cost, and the Group’s intent and ability to hold the investments. OTTI is recognized as a loss in the consolidated statements of operations.

Allowance for doubtful accounts

Accounts receivable represents amounts due from corporate customers of the Group’s various subsidiaries and schools. The Group provides allowance for doubtful accounts based on historical collection experience and a review of the current status of accounts receivable and other receivable. Accounts receivable and other receivables are presented net of allowance for doubtful accounts.

Changes in the allowance for doubtful accounts were as follows:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Beginning balance	1,180	1,399	751
Charge during the year	576	146	329
Written-off	(357)	(794)	(374)
Ending balance	<u>1,399</u>	<u>751</u>	<u>706</u>

Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight line basis over the following estimated useful lives:

Buildings	20-50 years
Transportation equipment	10 years
Furniture and education equipment	5 years
Computer equipment and software	3 years
Leasehold improvements	Shorter of the lease term or estimated useful life

Property and equipment also consist of construction in progress as 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. Construction in progress is transferred to specific property and equipment and depreciation of these assets commences when the assets are ready for their intended use.

Land use rights, net

Land use rights are recorded at cost less accumulated amortization and amortized on a straight-line basis over the remaining term of the land certificate, from 38.5 years to 50 years.

Intangible assets, net

Intangible assets are initially recorded at cost and are either not amortized or amortized on a straight-line basis over the estimated economic useful lives. Intangible assets with an indefinite useful life, representing one trademark, is not amortized. The Group performs a valuation of the intangible assets arising from business combination to determine the fair value and estimated useful lives to be assigned to each asset acquired. The acquired intangible assets are recognized and measured at fair value and amortized using the straight-line approach over the estimated economic useful lives of the assets.

The estimated useful lives of intangible assets, except for one trademark having infinite useful life, are as follows:

<u>Category</u>	<u>Estimated useful lives</u>
Trademark	10 years
License	20 years
Student base	1.75 years
Favorable lease	8.67 years
Courseware	3 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 would recognize an impairment loss based on the fair value of the assets. The Group did not record any impairment losses on long-lived assets during the years ended May 31, 2018, 2019 and 2020.

Goodwill, net

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Group's goodwill as of May 31, 2018, 2019 and 2020 relates to its acquisition of certain kindergartens and schools. In accordance with Accounting Standard Codification 350, Goodwill and Other Intangible Assets, the recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present.

Goodwill is tested for impairment at the reporting unit level on an annual basis (May 31 for the Group) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the

fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

On June 1, 2019, the Group early adopted Accounting Standards Update (“ASU”) 2017-04, Intangibles-Goodwill and Other (Topic 350) for the annual goodwill impairment test performed in the fiscal year 2020. Topic 350 permits the Group 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, which eliminated Step 2 from the goodwill impairment test on a prospective basis. The Group recognizes an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

The Group recorded nil, US\$5,245 and nil impairment losses during the years ended May 31, 2018, 2019 and 2020, respectively.

Long-term investments, net

The Group’s long-term investments include equity securities without readily determinable fair values, equity securities with readily determinable fair values, equity method investments and available-for-sale investments.

(a) Equity securities

On June 1, 2018, the Group adopted ASU 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 and reclassified unrealized losses of US\$97,929, net of tax on investment securities which were previously accounted for as available-for-sales investments, from accumulated other comprehensive loss to the opening balance of retained earnings. The adjustment related to the fair value measurement of equity securities which were previously classified as available-for-sales investments.

- Equity securities with readily determinable fair values

Prior to the adoption of ASU 2016-01, equity securities that have readily determinable fair values and were not accounted for using the equity method or those that result in consolidation of the investee were classified as available-for-sale investments, and were carried at the fair value with unrealized gains and losses recorded in accumulated other comprehensive income/ (loss) as a component of shareholders’ equity. Upon the adoption of ASU 2016-01, the Company carries these equity securities at the fair value and any changes in the fair value are recognized in the consolidated statements of operations.

- Equity securities without readily determinable fair values

Starting on June 1, 2018, with the adoption of ASU 2016-01, the Group elected a practicability exception to the 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 the 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 ASC Topic 820, Fair Value Measurements and Disclosures ("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 the fair value in the consolidated statements of operations.

(b) Equity method investments

Investee companies over which the Group has the ability to exercise significant influence, but does not have a controlling interest through investment in common shares or in-substance common shares, are accounted for 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%, and 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. For certain investments in limited partnerships, where the Group holds less than a 20% equity or voting interest, the Group may also have significant influence.

Under the equity method, the Group initially records its investment at cost and subsequently recognizes the Group's proportionate share of each equity investee's net income or loss after the date of investment into the consolidated statements of operations and accordingly adjusts the carrying amount of the investment.

The Group reviews its equity method investments for impairment whenever an event or circumstance indicates that an other-than-temporary impairment has occurred. The Group considers available quantitative and qualitative evidence in evaluating potential impairment of its equity method investments. An impairment charge is recorded when the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary.

During the years ended May 31, 2018, 2019 and 2020, the Group did not record any impairment related to its equity method investments.

(c) Available-for-sale investments

For investments in investees' shares which are determined to be debt securities, the Group accounts for them as available-for-sale investments when they are not classified as either trading or held-to-maturity investments. Available-for-sale investments are reported at the fair value, with unrealized gains and losses recorded in accumulated other comprehensive income/ (loss) as a component of shareholders' equity.

Realized gains and losses and provision for decline in value determined to be other than temporary, if any, are recognized in the consolidated statements of operations.

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 cost 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.

Long-term loan

Long-term loan is recognized at carrying amount. Interest expense is accrued over the estimated term of the facilities and recorded in the consolidated statements of operations.

Non-controlling interests and redeemable non-controlling interests

The Group's consolidated financial statements include entities in which the Company has a controlling financial interest. Earnings or losses attributable to non-controlling interest shareholders of the consolidated affiliated companies are classified separately as "non-controlling interests" in the Company's consolidated statements of operations.

Non-controlling interests in subsidiaries that are redeemable outside of the Company's control for cash or other assets are classified outside of permanent equity. If the redemption event is probable to occur, the Company adjusts the redeemable non-controlling interests to the redemption value on each balance sheet date with the changes recognized as an adjustment to retained earnings, or in the absence of retained earnings, as an adjustment to additional paid-in capital.

Value added tax ("VAT")

Pursuant to the PRC tax laws, in case of any product sales, generally the VAT rate is 3% of the gross sales for small scale VAT payer and 16% (or 13% starting April 1, 2019) of the gross sales for general VAT payer. Most of the subsidiaries of the Company are considered as general VAT payers for the sales of guidance materials and the intercompany sales of self-developed software. For general VAT payer, VAT on sales is calculated at 16% (or 13% starting April 1, 2019) on revenues from product sales and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is recorded as accrued expenses in the Group's consolidated financial statements.

The new enrollment system development services and other operating services, which were previously subject to business taxes, are now subject to VAT at the rate of 6% of revenues. The non-academic educational programs and services in short-term training schools may choose the applicable simple VAT collection method and apply for a 3% VAT rate. The intercompany sales of self-developed software are subject to VAT at the rate of 13% and the part in excess of the rate of 3% the Group can apply for refund upon collection by relevant tax authorities. The intercompany services related to self-developed software are subject to VAT at the rate of 6%. The sales of books are subject to VAT at the rate of 11% since July 1, 2017, decreased to 10% since May 1, 2018 and further decreased to 9% since April 1, 2019.

Since January 2020, in accordance with Cai Shui [2020] No.8, due to the Novel coronavirus ("COVID-19") pandemic, the VAT on certain services was temporarily exempted for the calendar year 2020.

Revenue recognition

On June 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 June 1, 2018. Results for the years ended May 31, 2019 and 2020 are presented under Topic 606, while revenues for the year ended May 31, 2018 are not adjusted and continue to be reported under ASC Topic 605, Revenue Recognition.

Revenue is 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 through educational programs and services with individual students in the PRC. In addition, the Group generates revenues from other services and the sales

of books, which were insignificant for the years ended May 31, 2019 and 2020. The following table presents the Group's revenues disaggregated by revenue sources. The Group's revenues are reported net of VAT and surcharges.

The primary sources of the Group's revenues are as follows:

(a) Educational programs and services

The educational programs and services consist of K-12 AST, test preparation and other courses, pre-school education, primary and secondary school education and online education. Each contract of educational programs and services is accounted for as a single performance obligation which is satisfied proportionately over the service period. Tuition fee is generally collected in advance and is initially recorded as deferred revenue. Refunds are provided to students if they decide within the trial period that they no longer want to take the course. After the trial period, if a student withdraws from a class, usually only those unearned portion of the fee is available to be returned. Historically, the Group has not had material refunds.

The Group recognizes revenue from the educational programs and services proportionately when the services are delivered. US\$3,040,741 of revenues of educational programs and services was derived from K-12 AST, test preparation and other courses, and the remaining amount was derived from other segments.

(b) Books and other services

Other service revenues are primarily derived from consulting services to students regarding overseas studies and study tours. Revenues are recognized when promised services are delivered to the Group's customers in an amount of consideration to which the Group expects to be entitled to in exchange for those services. Each contract includes certain milestones and each of the milestones is considered a single performance obligation which is satisfied at the point of time when each of the milestone is reached. Upon the adoption of Topic 606, the Group estimates the variable consideration to be earned and recognizes revenues related to each milestone when the related milestone is achieved. Under the legacy revenue recognition standard, such revenues were deferred and recognized when student admission was reasonably assured. The Group sells books or other educational materials developed or licensed by the Group either through its own distribution channels or through third party distributors. Revenues are recognized when control of the promised goods is transferred to the customer, in an amount that reflects the consideration the Group expects to be entitled to in exchange for the goods. All revenues of books and other services were derived from other segments.

The Group's contract assets consist of accounts receivable. The balance of contract assets amounted to US\$3,137, US\$3,300 and US\$4,178 as of May 31, 2018, May 31, 2019 and May 31, 2020, respectively. The Group's contract liabilities mainly consist of prepayments from customers (deferred revenue), with a balance of US\$1,202,010, US\$1,301,103 and US\$1,324,384 as of May 31, 2018, May 31, 2019 and May 31, 2020, respectively. All contract liabilities at the beginning of the years ended May 31, 2019 and 2020 were recognized as revenues during the years ended May 31, 2019 and 2020 and the all contract liabilities as of May 31, 2020 are expected to be realized in the following year. The difference between the opening and closing balances of the Group's contract liabilities primarily results from the timing difference between the Group's satisfaction of performance obligation and the customer's payment.

Refund liability mainly related to the estimated refunds that are expected to be provided to students if they decide they no longer want to take the courses. Refund liability estimates are based on historical refund ratio on a portfolio basis using the expected value method. As of June 1, 2018, May 31, 2019 and May 31, 2020,

refund liability amounted to US\$68,185, US\$76,221 and US\$94,006, respectively, and are included in accrued expenses and other current liabilities.

Operating leases

Before June 1, 2019, the Group adopted ASC Topic 840 ("ASC 840"), *Leases*, and each lease is classified at the inception date as either a capital lease or an operating lease.

On June 1, 2019, the Group adopted the new leasing standard, *Leases* ("ASC 842"), using the modified retrospective transition method resulting in the recording of operating lease right-of-use (ROU) assets of US\$1,254,595 and operating lease liabilities of US\$1,238,080 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 a material effect on the consolidated statements of operations. As of May 31, 2020, the Group recognized operating lease ROU assets of US\$1,425,466 and total lease liabilities US\$1,462,162, including current portion at the amount of US\$384,239.

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 sheets as ROU and lease liabilities, initially measured at the present value of the lease payments. 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 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. The Group accounts for the lease and non-lease components separately. Lastly, the Company also 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 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. Lease terms 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 costs

The Group expenses advertising costs as they incurred. Total advertising expenses were US\$55,936, US\$72,386 and US\$105,538 for the years ended May 31, 2018, 2019 and 2020, respectively, and have been included as part of selling and marketing expenses.

Government subsidies

The Group recognizes government subsidies as miscellaneous income when they are received because they are not subject to any past or future conditions, there are no performance conditions or conditions of use, and they are not subject to future return. Government subsidies received and recognized as miscellaneous income totaled US\$2,945, US\$3,684 and US\$43,476, for the years ended May 31, 2018, 2019 and 2020, respectively. The government subsidies income recognized for the year ended May 31, 2020 were mainly from the VAT exemption due to the COVID-19.

Foreign currency translation

The Company's functional and reporting currency is the United States dollars ("U.S. dollars"). The financial records of the Company's subsidiaries, the VIEs, the VIEs' subsidiaries and schools located in the PRC are

maintained in Renminbi (“RMB”), which is the functional currency of these entities. The financial records of the Company’s subsidiaries located in Hong Kong are maintained in U.S. dollars, which is the functional currency of these entities. The financial records of the Company’s subsidiaries located in United Kingdom are maintained in their local currency, the Great Britain Pound (“GBP”), which is the functional currency of these entities. The financial records of the Company’s subsidiary located in Australia are maintained in its local currency, the Australian Dollar (“AUD”), which is the functional currency of the entity. All financial records of the other entities are maintained in U.S. dollars, which is the functional currency of those entities.

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of operations.

For translating to the functional currency of the Company, assets and liabilities are translated into the reporting currency at the rates of exchange ruling at the balance sheet date. Equity accounts are translated at historical exchange rates. Revenues, expenses, gain and loss are translated using the average rate of exchange in effect during the reporting period. Translation adjustments are reported and shown as a separate component of other comprehensive income in the consolidated statements of changes in equity and the consolidated statements of comprehensive income.

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 other 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 Group’s cash and cash equivalents, restricted cash, and term deposits denominated in RMB amounted to US\$989,070, US\$1,105,190 and US\$855,654 as of May 31, 2018, 2019 and 2020, respectively.

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 valuing the asset or liability. Authoritative literature provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

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

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or

infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

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

Fair value of financial instruments

The Group's financial instruments consist primarily of cash and cash equivalents, restricted cash, term deposit, short-term investments, accounts receivable, amounts due from/to related parties, available-for-sale investments, equity security with/without readily determinable fair values, accounts payable, contingent consideration in acquisitions, long-term loan and income tax payable. The Group carries its available-for-sale investments and equity securities with readily determinable fair values at fair value and carries equity securities without readily determinable fair values at cost, less impairment, plus or minus observable price changes in a similar transaction. The Group carries its contingent consideration in acquisitions at fair value which is determined based on the best estimation from the managements. The carrying amounts of the long-term loan approximate fair value as its interest rates are at the same level of current market yield for comparable debts. The carrying amounts of other financial instruments approximate their fair values due to the short-term maturities of these instruments.

Net income per share

Basic net income per share is computed by dividing net income attributable to the holders of common shares by the weighted average number of common shares outstanding during the year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. Common share equivalents are excluded from the computation of the diluted net income per share in years when their effect would be anti-dilutive. The Group has share options and NES which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted net income per share, the effect of the share options and NES is computed using the treasury stock method. The effect of mezzanine equity is computed using the if-converted method.

Income taxes

The Group accounts for income taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities, net of operating loss carry forwards and credits, by applying enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of operations in the period of change. Deferred tax assets are reduced by a valuation allowance when it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Group accounts for uncertain tax positions by reporting a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Tax benefits are recognized from uncertain tax positions when the Group believes that it is more likely than not that the tax position will be sustained on examination by the tax authorities based on the technical merits of the position. The Group recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expenses.

Comprehensive income

Comprehensive income includes net income, unrealized gain or loss on available-for-sale investments and foreign currency translation adjustment. Comprehensive income is reported in the consolidated statements of comprehensive income.

Share-based compensation

Share-based payments to employees and directors are measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expenses net of forfeitures on a straight-line basis over the requisite service period, with a corresponding addition to the additional paid-in capital. The Group uses the binomial option pricing model to measure the fair value of options granted, and the quoted market price of the common shares or the fair value of underlying ordinary shares of Koolearn Holding before its IPO by using the discounted cash flow method, to measure the fair value of options and NES granted to employees at each measurement date. The binomial option pricing model is adopted because the Group believes that considering the possibility of exercise an option over the life of the option, as affected by the reality of changing stock prices and non-constant risk free rates, would better reflect the measurement objective of relevant accounting literature.

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. Forfeitures are recognized as they occur.

Concentration of credit risk

Financial instruments that potentially expose the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, term deposits, restricted cash, short-term investments and accounts receivable. As of May 31, 2020, substantially all of the Group's cash and cash equivalents, term deposits, restricted cash and short-term investments were deposited with financial institutions with high-credit ratings and quality. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The Group performs periodic credit evaluations and provides an allowance for doubtful accounts to reduce the accounts receivable balance to its net realizable value. The Group did not have any customers constituting 10% or more of the consolidated net revenues and accounts receivable in the fiscal years 2018, 2019 and 2020, respectively.

Recent accounting pronouncements adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases (ASC 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 companies, 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 non-lease 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.

The Group adopted this standard on June 1, 2019 and elected not to recast the comparative periods presented. In addition, the Group accounts for lease and non-lease components separately. The consolidated balance sheets and the consolidated statements of operations and cash flows for reporting periods beginning after June 1, 2019 are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under ASC 840.

The adoption did not have a material impact on the Group's consolidated statements of operations or consolidated statements of cash flows, and the adoption of ASC 842 did not result in a cumulative-effect adjustment to the opening balance of retained earnings. Further information is disclosed in Note 13.

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 FASB eliminated Step 2 from the goodwill impairment test. Under the amendments in this update, 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. The update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The update should be applied 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 that is a SEC filer should adopt the amendments in this update 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 early adopted ASU 2017-04 for the annual goodwill impairment test on June 1, 2019.

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. This ASU affects 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 right to receive cash. For public business entities, this ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt 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). On April 25, 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 does not expect this standard to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value". 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 does not expect any material impact on its consolidated financial statements and related disclosures as a result of adopting this standard.

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. The Group is in the process of evaluating the impact of the adoption of this pronouncement on its consolidated financial statements.

3. BUSINESS ACQUISITIONS

Business acquisition in fiscal year 2018:

Acquisition of Hangzhou Shengshen Technology Co., Ltd ("Hangzhou Shengshen")

In October 2017, the Group acquired 100% equity interest in Hangzhou Shengshen, a K-12 education group located in Zhejiang, for a total consideration of US\$11,012, in which US\$5,309, US\$2,043 and US\$931 had been paid based on the payment schedule during the years ended May 31, 2018, 2019 and 2020, respectively. The acquisition was recorded using the acquisition method of accounting, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The purchase price allocation was determined by the Group with assistance of an independent appraiser. The purchase price was allocated on the date of acquisition as follows:

	US\$	Amortization period
Cash	3,571	
Other current assets	704	
Property and equipment	1,148	1-5 years
Intangible assets		
Trademark	1,713	5 years
Student base	2,164	3 years
Goodwill	9,809	
Deferred revenue	(5,566)	
Other current liabilities	(1,562)	
Deferred tax liabilities	(969)	
Total	<u>11,012</u>	

Other acquisitions

During the year ended May 31, 2018, the Group also made several other business acquisitions, which were insignificant.

The total cash consideration of these other business acquisitions was US\$6,992, in which US\$5,902, US\$381 and US\$376 had been paid during the years ended May 31, 2018, 2019 and 2020, respectively. The cash and cash equivalents, intangible assets, goodwill, deferred revenue and non-controlling interests acquired from these business acquisitions were US\$8,639, US\$2,294, US\$6,383, US\$15,215 and US\$1,683, respectively. The purchase price allocations were determined by the Group with assistance of an independent appraiser.

The following summarized unaudited pro forma results of operations for the years ended May 31, 2017 and 2018 assuming that these acquisitions during the year ended May 31, 2018 occurred as of June 1, 2016. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of June 1, 2016, nor is it indicative of future operating results.

	For the years ended May 31,	
	2017	2018
	(unaudited)	(unaudited)
	US\$	US\$
Pro forma net revenues	1,815,660	2,451,735
Pro forma net income attributable to New Oriental		
Education & Technology Group Inc.	275,685	296,697
Pro forma net income per share – basic	1.75	1.88
Pro forma net income per share – diluted	1.75	1.87

Business acquisition in fiscal year 2019:

Acquisition of Suzhou Hongyi Education Investment Co., Ltd. ("Suzhou Hongyi")

In September 2018, the Group acquired 100% equity interests in Suzhou Hongyi, a company engaging in pre-school education, for a total consideration of US\$42,608. The total consideration is contingent based on its financial performance in the transition period and capped to US\$42,608. During the years ended May 31, 2019, the Group paid US\$27,458 and recorded a contingent consideration payable of US\$15,150. 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 January 2020. The acquisition was recorded using the acquisition method of accounting, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The purchase price allocation was determined by the Group with the assistance of an independent appraiser. The purchase price was allocated on the date of acquisition as follows:

	US\$	Amortization period
Cash	1,321	
Other current assets	2,020	
Property and equipment	402	1-5 years
Intangible assets		
Trademark	1,845	5 years
Student base	4,656	3 years
Goodwill	37,860	
Other current liabilities	(3,871)	
Deferred tax liabilities	(1,625)	
Total	<u>42,608</u>	

Asia Pacific Montessori Education Co., Ltd. ("Asia Pacific")

In November 2017, the Group invested US\$11,216 in Asia Pacific, a kindergarten group located in Beijing and Hangzhou engaged in pre-school education, for a 35% equity interests. The investment in Asia Pacific was previously accounted for as a cost method investment prior to June 1, 2018 and was subsequently accounted as equity securities without readily determinable fair value after the adoption of ASU 2016-01. In December 2018, the Group acquired another 65% equity interests in Asia Pacific for a total consideration of US\$12,600, in which US\$8,784 and US\$1,071 had been paid during the years ended May 31, 2019 and 2020, respectively.

The acquisition of 65% equity interest was accounted for as a step acquisition whereby the Group remeasured the fair value of its previously held equity interest in Asia Pacific. The fair value of the previous equity interest held by the Group was measured at fair value using a discounted cash flow method and taking into account certain factors including the projection of discounted future cash flow and an appropriate discount rate. The fair value remeasurement of the 35% equity interest in Asia Pacific resulted in a loss of US\$4,298.

After this transaction, the Group held 100% equity interests of Asia Pacific. The acquisition was recorded using the acquisition method of accounting, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The purchase price allocation was determined by the Group with the assistance of an independent appraiser. The purchase price was allocated on the date of acquisition as follows:

	US\$	Amortization period
Cash	1,269	
Other current assets	695	
Property and equipment	251	1-5 years
Intangible assets		
Trademark	2,085	5 years
Student base	1,064	3 years
Goodwill	17,043	
Other non-current assets	2,087	
Other current liabilities	(4,189)	
Deferred tax liabilities	(787)	
Fair value of the 35% equity interests previously held	(6,918)	
Total	<u>12,600</u>	

Other acquisitions

During the year ended May 31, 2019, the Group also made several other business acquisitions.

The cash consideration of these other business acquisition amounted to US\$441, in which US\$398 and US\$43 had been paid during the years ended May 31, 2019 and 2020, respectively. The cash and cash equivalents and goodwill acquired from those business acquisitions amounted to US\$107 and US\$729, respectively. The purchase price allocations were determined by the Group with the assistance of an independent appraiser.

The following summarized unaudited pro forma results of operations for the years ended May 31, 2018 and 2019 assuming that these acquisitions during the year ended May 31, 2019 occurred as of June 1, 2017. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of June 1, 2017, nor is it indicative of future operating results.

	For the years ended May 31,	
	2018	2019
	(unaudited)	(unaudited)
	US\$	US\$
Pro forma net revenues	2,451,735	3,100,364
Pro forma net income attributable to New Oriental		
Education & Technology Group Inc.	296,697	238,794
Pro forma net income per share – basic	1.88	1.51
Pro forma net income per share – diluted	1.87	1.50

Business acquisition in fiscal year 2020:

During the year ended May 31, 2020, the Group made a business acquisition for a total consideration of US\$1,153. The Group paid an amount of US\$346 based on the payment schedule during the year ended

May 31, 2020 and the unpaid amount is US\$807. The acquisition was recorded using the acquisition method of accounting, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The intangible assets and goodwill acquired from the acquisition was US\$1,149 and US\$2,815, respectively. The purchase price allocation was determined by the Group with the assistance of an independent appraiser.

Pro forma financial information is not presented for the business acquisition in fiscal year 2020 as it is immaterial to the reported results.

The revenue and net loss attributable to this acquisition included in the Company's consolidated statements of operations since the acquisition date were US\$829 and US\$1,115, respectively.

4. SHORT-TERM INVESTMENTS

Short-term investments consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Held-to-maturity investments	<u>1,623,763</u>	<u>1,668,689</u>	<u>2,318,280</u>

Short-term investments mainly consist of various financial products purchased from Chinese banks and trusts and are classified as held-to-maturity investments as the Group has the positive intent and ability to hold the investments to maturity. The maturities of these financial products range from one month to less than one year, with variable interest rates. They are classified as short-term investments on the consolidated balance sheets as their contractual maturity dates are equal to or less than one year.

The Group estimated that their fair value approximate their amortized costs. No OTTI loss was recognized for the years ended May 31, 2018, 2019 and 2020, respectively.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Advances to suppliers	43,913	45,665	49,547
Prepaid rents (a)	56,531	52,794	39,706
Interest receivables	23,647	23,856	33,488
Staff advances (b)	9,544	14,811	24,712
Receivable from third parties' platforms	5,967	9,831	10,593
Rental deposits	10,953	9,539	10,326
Prepaid advertising fees	6,917	4,564	7,607
VAT recoverable	3,493	2,297	5,562
Deposits of advertising and decoration	3,342	3,020	2,594
Prepaid property taxes and other taxes	212	455	779
Others (c)	18,490	33,093	14,639
	183,009	199,925	199,553
Less: allowance for other receivables	(914)	(248)	(149)
	<u>182,095</u>	<u>199,677</u>	<u>199,404</u>

(a) Prepaid rents represent the prepayment of rent related to leases less than 12 months.

(b) Staff advances were provided to staff for traveling and business related use and are expensed as incurred.

(c) Others primarily included prepaid maintenance fees, other receivables and other miscellaneous prepayments.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Buildings	156,324	142,047	178,782
Transportation equipment	9,936	9,565	9,172
Furniture and education equipment	128,670	153,674	195,262
Computer equipment and software	65,227	70,995	95,385
Leasehold improvements	349,953	451,105	579,231
Construction in progress	30,921	36,376	44,856
	741,031	863,762	1,102,688
Less: accumulated depreciation	(275,940)	(342,106)	(453,218)
Exchange differences	(15,499)	10,359	22,985
	<u>449,592</u>	<u>532,015</u>	<u>672,455</u>

Depreciation expenses for the years ended May 31, 2018, 2019 and 2020 were US\$77,081, US\$110,042 and US\$146,310, respectively.

7. LAND USE RIGHTS, NET

Land use rights, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Land use rights	5,315	7,955	7,696
Less: accumulated amortization	(1,417)	(1,680)	(1,842)
Exchange differences	(113)	130	183
Land use rights, net	<u>3,785</u>	<u>6,405</u>	<u>6,037</u>

Amortization expenses for land use rights for the years ended May 31, 2018, 2019 and 2020 were US\$110, US\$263 and US\$162, respectively. The Group expects to recognize amortization expense in aggregate of US\$810 in coming five years and US\$5,227 thereafter.

8. INTANGIBLE ASSETS, NET

Intangible assets, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Intangible assets with indefinite lives:			
Trademark	256	238	229
Intangible assets with finite lives:			
Trademark	5,575	9,109	9,170
Courseware	129	120	116
Student base	7,014	12,223	12,719
Favorable lease	732	679	657
License	415	415	415
	<u>14,121</u>	<u>22,784</u>	<u>23,306</u>
Less: accumulated amortization	(5,272)	(8,985)	(13,515)
Exchange differences	(305)	136	455
	<u>8,544</u>	<u>13,935</u>	<u>10,246</u>

Amortization expenses for the intangible assets for the years ended May 31, 2018, 2019 and 2020, were US\$1,839, US\$3,699 and US\$4,530, respectively. As of May 31, 2020, the Group expects to recognize amortization expenses of US\$4,068, US\$2,684, US\$1,774, US\$789 and US\$345 for the next five years, respectively, and US\$357 thereafter.

9. GOODWILL, NET

Goodwill, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Beginning balance	15,765	33,411	86,541
Acquisition	16,192	55,632	2,815
Exchange differences	1,454	(2,502)	(2,063)
Ending balance	33,411	86,541	87,293
Accumulated impairment	(1,682)	(6,927)	(6,927)
Goodwill, net	<u>31,729</u>	<u>79,614</u>	<u>80,366</u>

The Group recorded nil, US\$5,245 and nil impairment losses on goodwill for the years ended May 31, 2018, 2019 and 2020, respectively. The Group performed its annual goodwill impairment testing at the end of each reporting period or more frequently if events or changes in circumstances indicate that it might be impaired.

10. LONG-TERM INVESTMENTS, NET

Long-term investments, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Equity securities with readily determinable fair value:			
Sunlands Online Education Group ("Sunlands")			
(a)	134,423	37,802	21,440
Beijing Shengtong Printing Co., Ltd			
("Shengtong") (b)	9,261	6,839	4,066
Tarena International, Inc. ("Tarena") (c)	9,610	3,200	2,190
Equity securities without readily determinable fair value:			
Tibet Tianli Education and Technology Co., Ltd			
("Tibet Tianli") (d)	—	4,346	10,512
EEO Education Technology Co., Ltd. ("EEO")			
(e)	9,767	9,069	8,774
Other investments (f)	28,740	30,663	30,797
Equity method investments:			
New Oriental Education and Culture Industry Fund			
(Zhangjiagang) Partnership (Limited Partnership)			
("Education Industry Fund") (g)	—	67,834	67,057
VM EDU Fund I, L.P. (h)	—	—	56,734
Other investments (i)	9,131	20,191	27,716
Available-for-sale investments:			
Shanghai Golden Education & Training Co., Ltd.			
("Golden Finance") (j)	86,937	61,963	59,947
Tianjin Uhozz Internet Technology Co., Ltd			
("Uhozz") (k)	12,826	16,350	16,350
Shanghai ALO7 Technology Co., Ltd. ("Alo7.com")			
(l)	14,395	14,289	14,289
Lele Global Limited ("Lele") (m)	9,157	11,251	11,680
Other available-for-sale investments (n)	109,086	120,907	99,549
	<u>433,333</u>	<u>404,704</u>	<u>431,101</u>

- (a) In January 2016, the Group invested US\$12,310 in Sunlands, a company engaged in online education specific to vocational qualification training, for subscribing the convertible bonds. In July 2016, the Group converted all of the convertible bonds into redeemable preferred shares of Sunlands for a 4.9% equity interests. Additionally, the Group also invested an additional US\$12,205 redeemable preferred shares for another 4.9% equity interests in Sunlands during July 2016. Subsequent to the additional investment, the Group holds 9.8% equity interest in Sunlands.

On March 23, 2018, Sunlands was listed in the New York Stock Exchange Market. All of the preferred shares were converted to 529,426 Class A ordinary shares immediately upon the completion of the listing. Subsequent to the listing, the Group invested an additional US\$10,000 and obtained 34,783 Class A ordinary shares in April 2018 and held 8% aggregate equity interests in

Sunlands. Unrealized gains of US\$101,779 was reported in other comprehensive income for the year ended May 31, 2018. Upon the adoption of ASU 2016-01, the investment was reclassified from available-for-sale investment to equity security with readily determinable fair value on June 1, 2018, and losses of US\$ 96,621 and US\$ 16,362 were recorded in loss from fair value change of long-term investments for the years ended May 31, 2019 and 2020, respectively, on the Group's consolidated statements of operations.

- (b) In April 2015, the Group acquired 18% equity interests in Beijing ROBOROBO Technology Co., Ltd. ("ROBOROBO") for a cash consideration of US\$4,356. ROBOROBO is a company applying various robots build training course for kids with different ages. In February 2017, the Group disposed all of the ownership in ROBOROBO, in exchange for 1.87% common shares issued by Shengtong, which is a listed A-share company in China. Realized gain of US\$7,086 was recognized during the year ended May 31, 2017. The equity interests acquired in Shengtong were classified as equity security with readily determinable fair value. Unrealized loss of US\$1,450 was reported in other comprehensive income for the year ended May 31, 2018. Upon the adoption of ASU 2016-01, the investment was reclassified from available-for-sale investment to equity security with readily determinable fair value on June 1, 2019, losses of US\$1,605 and US\$1,079 were recorded in loss from fair value change of long-term investments for the years ended May 31, 2019 and 2020, respectively.
- (c) In March 2014, the Group invested US\$13,500 in Tarena, a NASDAQ listed company that provides IT professional education services in China, for 3% equity interests. In July 2017, the Group sold 1% equity interest in Tarena to third parties and the realized gain of US\$4,545 was recognized in investment income for the year ended May 31, 2018. Unrealized loss of US\$7,040 was reported in other comprehensive income for the year ended May 31, 2018. Upon the adoption of ASU 2016-01, the investment was reclassified from available-for-sale investment to equity security with readily determinable fair value on June 1, 2019, losses of US\$6,410 and US\$1,010 were recorded in loss from fair value change of long-term investments for the years ended May 31, 2019 and 2020, respectively.
- (d) In December 2018, the Group invested 5% equity interests in Tibet Tianli, a company engaged in the developing educational products. In April 2020, the Group further subscribed 5% equity interests. The Group accounted for the investment as equity securities without readily determinable fair values as Tibet Tianli is a private company without readily determinable fair value. As of May 31, 2020, the Group holds 9.75% of the total equity interests in Tibet Tianli after the dilution. For the years ended May 31, 2018, 2019 and 2020, no impairment loss was recorded from this investment.
- (e) In April 2017, the Group acquired 10% equity interests in EEO, a company engaged in the business of developing on-line classroom product which were accounted for using the cost method because it is not in-substance common share for the year ended May 31, 2018. After the adoption of ASU 2016-01, 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. For the years ended May 31, 2018, 2019 and 2020, no impairment loss was recorded in regard to the investment.
- (f) The Group holds several insignificant investments in third-party private companies and has no ability to exercise significant influence over the investees, which were accounted for using the cost method prior to the adoption of ASU 2016-01. After the adoption of ASU 2016-01, the Group accounted for these equity investments using the measurement alternative when cost method is not applicable and there is no readily determinable fair value for the investments. The Group was recorded nil, nil and

US\$ 9,096 impairment loss on these investment during the years ended May 31, 2018, 2019 and 2020, respectively.

- (g) In July 2018, Education Industry Fund was established with the total committed capital of US\$224,000. There are two general partners in the fund, which include an entity invested by Mr. Yu and an unrelated third party. The Group participates in Education Industry Fund as a limited partner and invested US\$75,000 in Education Industry Fund as of May 31, 2020. The Group accounts for the investment under the equity method in accordance with ASC 323 because the Group is a limited partner and owns 33% interest in Education Industry Fund.
- (h) In June 2019, VM EDU Fund I, LP, a market-driven investment entity, was established with total committed capital of US\$100,000. The Group participates in VM EDU Fund I, LP as a limited partner and invested US\$56,149 in VM EDU Fund I, LP. The Group has the ability to exercise significant influence over the investment because the Group is a limited partner with an investment of more than 3 to 5 percent which is viewed as more than minor for investment in limited partnership investments. Additionally, the Group does not control or take part in management of the daily affairs and operations of the fund, and therefore, the Group accounts for the investment under the equity method in accordance with ASC 323.
- (i) The Group holds from 6.86% to 50% equity interests in other 15 third-party companies through investments in their common shares or in-substance common shares. The majority of the long-term investments are engaged in the business of providing educational services. The Group accounts for these investments under the equity method because the Group has the ability to exercise significant influence but does not have control over the investees, even though the Group holds less than 20% equity interests in some of the investees.
- (j) In April 2015, the Group invested 9.75% equity interests in Golden Finance, a company engaged in training programs business associated with finance and business management. In November 2015, the Group further subscribed 9.75% equity interests. During the year ended May 31, 2019, the Group disposed of 7.2% equity interests in Golden Finance with total consideration of US\$33,156, and the remaining shares were diluted to 12.3%. Gain of US\$23,096 was recognized as realized gain from long-term investments in the consolidated statements of operations for the year ended May 31, 2019. The Group accounts for the investment as available-for-sale investments since the investee's preferred shares held are redeemable and determined to be debt securities and measured at fair value.
- (k) In May 2015, the Group invested in Uhozz, a company providing oversea rental agency services, for 10% equity interests with redemption and liquidation preferences. In March 2018, the Group further subscribed 15.18% series B preferred shares. The Group accounted for the investment as available-for-sale investments since the investee's preferred shares held are redeemable and determined to be debt securities and measured them at fair value.
- (l) In March 2012, the Group acquired a convertible promissory note from Alo7.com for US\$1,000, which entitled the Group to automatically convert the note into equity security upon certain conditions were met. In July 2012, the Group converted the US\$1,000 promissory note into convertible redeemable preferred shares for a 3.4% equity interests in Alo7.com on an as-converted basis. In 2014, the Group further invested redeemable preferred shares into Alo7.com. As of May 31, 2020, the Company held a 14.3% equity interests in Alo7.com. The Group accounts for the investment as available-for-sale investments since the preferred shares held are redeemable at the option of the investors and are determined to be debt securities and measured at fair value.
- (m) In September 2015, the Group invested in Lele, a company providing online learning and tutoring services for students from kindergarten through 12th grade, to acquire 48,796,296 convertible redeemable preferred shares for an 8.5% equity interests. In December 2018, the Group further in

invested series C preferred shares in Lele. As of May 31, 2020, the Group held a 7.8% equity interests in Lele. The investment was classified as available-for-sale investment as the Group determined the preferred shares were debt securities due to substantive redemption right and measured the investment at fair value.

- (n) Other available-for-sale investments represent several insignificant individual investments classified as available-for-sale investments as of May 31, 2018, 2019 and 2020. Realized gains of US\$2,821, US\$3,283 and US\$407 were recorded in realized gain from long-term investments for the years ended May 31, 2018, 2019 and 2020, respectively.

The Group recognized impairment losses from long-term investments amounting to US\$980, US\$5,919 and US\$31,750 for the years ended May 31, 2018, 2019 and 2020, respectively, as the Group believes the carrying value of these investments were no longer recoverable.

The Group recorded unrealized gain of US\$129,545, US\$19,483 and unrealized loss of US\$748 from available for sale investments for the years ended May 31, 2018, 2019 and 2020, respectively.

11. FAIR VALUE MEASUREMENT

Assets and liabilities measured at fair value on a recurring basis

The Group measures available-for-sale investments, equity securities with readily determinable fair value and contingent consideration payable at fair value on a recurring basis. The available-for-sale investments recorded in long-term investments include redeemable preferred shares, convertible note and special assets management plan-Guotai Yuanxin & New Oriental ("Assets Management Plan"). The equity securities with readily determinable fair value were common shares of three listed companies.

As of May 31, 2018, 2019 and 2020, information about inputs for the fair value measurements of the Group's assets that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

Description	As of May 31, 2018			
	Quoted Prices in Active Market for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	US\$	US\$	US\$	US\$
Long-term investments:				
Available-for-sale investments	<u>153,294</u>	<u>98,504</u>	<u>133,897</u>	<u>385,695</u>
Description	As of May 31, 2019			
	Quoted Prices in Active Market for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	US\$	US\$	US\$	US\$
Long-term investments:				
Equity securities with readily determinable fair values	47,841	—	—	47,841
Available-for-sale investments	—	78,879	145,881	224,760
Contingent consideration payable				
(Note 3)	<u>—</u>	<u>—</u>	<u>(15,150)</u>	<u>(15,150)</u>
Description	As of May 31, 2020			
	Quoted Prices in Active Market for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
	US\$	US\$	US\$	US\$
Long-term investments:				
Equity securities with readily determinable fair values	27,696	—	—	27,696
Available-for-sale investments	<u>—</u>	<u>41,889</u>	<u>159,926</u>	<u>201,815</u>

The Company measured the fair value of its investments in common shares using the market approach based on the quoted stock price of its investees in the active market and has classified it as level 1 measurement.

The Company measured the fair value of its investment in convertible note and Assets Management Plan based on the respective principal and expected returns and has classified those as level 2 measurement.

For redeemable preferred shares that do not have a quoted market rate, the Company measured their fair value based on recent transactions or based on the market approach or income approach when no recent transactions are available. Recent transactions include the purchase price agreed by an independent third party for a similar investment and have been classified as level 2 measurement. When no recent transactions are available, a market approach or income approach will be 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, discount of lack of marketability, investee's time to initial public offering as

well as related volatility. The income approach takes into consideration a number of factors including management projection of discounted future cash flow of the investee as well as an appropriate discount rate. 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.

The balance of contingent consideration payable as of May 31, 2019 is related to the acquisition of Suzhou Hongyi and the Company measured the fair value of its contingent consideration payable based on its best estimation on the financial performance of Suzhou Hongyi in the transition period as agreed in the acquisition agreement. As of May 31, 2020, the Company has paid off this contingent consideration with no gain or loss recognized.

The Group did not have any transfers between level 1 and level 2 fair value measurements during the periods presented. During the year ended May 31, 2018, the Group transferred one redeemable preferred share from level 3 to level 1 for a total of US\$32,644. During the years ended May 31, 2019 and 2020, the Group did not have such transaction. During the year ended May 31, 2020, the Group transferred two investments from level 3 to level 2 for a total of US\$5,713 and two investments from level 2 to level 3 for a total of US\$ 11,534.

The following table provides additional information about the reconciliation of the fair value measurements of assets using significant unobservable inputs (level 3).

	Level 3 investments
	US\$
Balance as of June 1, 2017	123,029
Transfer to level 1 fair value measurements	(32,644)
Unrealized gain	43,512
Balance as of May 31, 2018	133,897
Initial recognition	30,839
Unrealized loss	(18,855)
Balance as of May 31, 2019	145,881
Initial recognition	10,000
Transfer from level 2	11,534
Transfer to level 2	(5,713)
Unrealized loss	(1,776)
Balance as of May 31, 2020	159,926

Assets and liabilities measured at fair value on a nonrecurring basis

Goodwill and acquired intangible assets are measured at fair value on a non-recurring basis when an impairment is recognized.

The Group measures goodwill at fair value annually or whenever events or changes in circumstances indicate that the carrying amount of a reporting unit exceeds its fair value. The fair value of goodwill is determined using discounted cash flows, and an impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Refer to Note 9 for the goodwill impairment loss recognized for the years ended May 31, 2018, 2019 and 2020. The Group measures acquired intangible assets using the 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 loss related to intangible assets acquired for the years ended May 31, 2018, 2019 and 2020.

The Group measures long-term investments (excluding the equity securities with readily determinable fair values and available-for-sale investments) at fair value on a nonrecurring basis only if an impairment or observable price adjustment is recognized in the current period. Refer to Note 10 for the long-term investments impairment loss recognized for the years ended May 31, 2018, 2019 and 2020.

For equity securities without readily determinable fair values, the fair value was determined using directly or indirectly observable inputs in the market place (Level 2 inputs). Whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable, the fair value of aforementioned long-term investments was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management projection of discounted future cash flow and the discount rate.

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Accrued payroll	212,677	285,329	331,172
Refund liability (a)	—	76,221	94,006
Payable for purchase of property and equipment	45,590	44,445	65,335
Accrued advertising fees	8,548	11,934	20,231
Refundable fees received from students (b)	11,541	15,783	15,955
Refundable deposits (c)	7,290	11,074	14,819
Rent payable	18,210	23,643	13,857
Welfare payable	9,187	12,897	12,612
Amounts reimbursable to employees (d)	16,157	19,366	12,674
Royalty fees payable (e)	4,410	7,724	6,696
Accrued professional service fees	1,134	1,943	6,199
Payable for investments and acquisitions	5,420	21,962	3,917
VAT payable	12,125	13,321	2,881
Other taxes payable	2,945	2,715	1,785
Others (f)	18,303	28,164	32,480
Total	<u>373,537</u>	<u>576,521</u>	<u>634,619</u>

- (a) The refund liability is recognized for variable amount of the considerations received from clients and recorded as refund liability in accordance with Topic 606 as described in Note 2.
- (b) Refundable fees received from students represent (1) the miscellaneous expenses other than tuition fees received from students which will be paid out on their behalf; and (2) tuition fees refundable to students for classes withdrawn.
- (c) Refundable deposits represent student deposits for dormitory or other fees that will be refunded upon graduation and student security deposits refunded upon completion of the study tour.
- (d) Amounts reimbursable to employees include traveling and the business related expenses.
- (e) Royalty fees payable relate to payments to content providers for on-line learning programs and those to counterparties for copyrights and resource sharing.

- (f) Others primarily include transportation expenses, utility fees, property management fees and other miscellaneous expenses payable.

13. Lease

The Group has operating leases for learning centers, service centers and office spaces. 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 May 31, 2020 was US\$392,168, which excluded cost of short-term contracts. Short-term lease cost for the year ended May 31, 2020 was US\$9,028.

As of May 31, 2020, the weighted average remaining lease term was 4.7 years and the weighted average discount rate was 4.2% for the Group's operating leases.

Supplemental cash flow information related to the operating leases is as follows:

	For the year ended May 31, 2020
	US\$
Cash payments for the operating leases	371,734
ROU assets obtained in exchange for the new operating lease liabilities	<u>639,545</u>

A summary of maturity analysis of the annual undiscounted cash flows for the operating lease liabilities as of May 31, 2020 is as follows:

	As of May 31, 2020
	US\$
Fiscal year ending	
May 2021	407,854
May 2022	367,805
May 2023	302,990
May 2024	225,387
May 2025	130,190
Thereafter	<u>176,984</u>
Total future lease payments	1,611,210
Less: Imputed interest	<u>(149,048)</u>
Present value of operating lease liabilities	<u>1,462,162</u>

As of May 31, 2020, the Group has lease contracts that have been entered into but not yet commenced amounting to \$32,949, and these contracts will commence during fiscal year 2021.

As of May 31, 2019, the future minimum lease payments under the Group's non-cancelable operating lease agreements based on ASC 840 are as follows:

	As of May 31, 2019 US\$
Fiscal year ending	
May 2020	360,972
May 2021	337,751
May 2022	297,379
May 2023	212,814
May 2024	143,899
Thereafter	162,882
Total future lease payments	<u>1,515,697</u>

14. LONG-TERM LOAN

Facilities Agreement

On December 14, 2018, the Company entered into a three-year US\$250,000 term and revolving facilities agreement (the "Facilities Agreement") with a group of lenders. The facility, a US\$100,000 three-year bullet maturity term loan (the "Facilities A"), a US\$100,000 three-year revolving facility (the "Facilities B") and an additional commitment of US\$50,000, are priced at 165 basis points over London Interbank Offered Rate. The additional commitment of US\$50,000 expired in April 2019. The interest is payable on a quarterly basis.

The Company paid a commitment fee of 0.3% per annum based on the undrawn portion of the facilities for the period commencing on 45 days after the falling of the Facilities Agreement to the end of the availability period for the Facilities A. The Company also paid a commitment fee of 0.5% per annum based on the undrawn portion of the facilities for all availability period for the Facilities B.

The debt issuance cost of \$3,543 for the Facilities Agreement of 2018 was amortized over the period from December 2018 to December 2021, the termination date of the Facilities Agreement.

The Facilities Agreement contains financial covenants on the Group's equity, debt and interest coverage ratio, and also includes acceleration clauses that are triggered upon the occurrence of an event of default. As of May 31, 2020, the Group is in compliance with its covenant.

As of May 31, 2020, the Group had made US\$55,000, US\$45,000 and US\$20,000 (2019: US\$55,000 and US\$45,000) draw down of the loans under the Facilities A and Facilities B.

	As of May 31,	
	2019	2020
	US\$	US\$
Secured Bank Loan	96,457	117,881
The carrying amounts of bank loans are repayable:		
Within a period of more than one year but not exceeding two years	—	117,881
Within a period of more than two years but not exceeding five years	96,457	—

15. REDEEMABLE NON-CONTROLLING INTERESTS

On April 24, 2018, Koolearn Holding entered into a preferred share purchase agreements with a group of investors to issue an aggregate of 64,396,251 Series B convertible redeemable participating preferred shares ("Series B") for an aggregate consideration of US\$92,699. On May 17, 2018, Koolearn Holding entered into a preferred share purchase agreement with an investor to issue 90,416,181 Series A convertible redeemable participating preferred shares ("Series A") with fair value of US\$113,925.

The transactions were completed in May 2018. After the issuance of Series B and Series A preferred shares, the Group held approximately 68% equity interests in Koolearn Holding on a fully-diluted basis.

The Group classified Series B and Series A preferred shares as mezzanine equity since they are contingently redeemable at any time after December 31, 2019 by the holders in the event that (i) a qualified initial public offering ("QIPO") has not occurred, or (ii) any material violation of applicable laws, or (iii) material breach of representations, warranties, undertaking or other obligations by Koolearn Holding's group entities or shareholders, or (iv) at any time any other preferred shareholder requests for redemption. These matters are not certain to occur and are not solely within the control of Koolearn Holding. As of May 31, 2018, the Company determined the redemption is not probable and accordingly, did not adjust the carrying amount of the Series B and Series A preferred shares to the redemption value as Koolearn Holding was in the process of an initial public offering and had made an application for listing its securities on the Stock Exchange of Hong Kong Limited.

In March 2019, Koolearn Holding completed its QIPO in Hong Kong and the Group reclassified the mezzanine equity amounting to US\$206,624 to additional paid-in capital and non-controlling interests.

The key terms of the Series B and Series A preferred shares are summarized as below:

Voting rights

Preferred shareholders have the right to one vote for each ordinary share into which each outstanding preferred share held could then be converted.

Dividends

Each holder of the Series A preferred shares and the Series B preferred shares shall be entitled to receive dividends and distributions from Koolearn Holding. Any dividend available for distribution shall be distributed ratably among all shareholders, on an as-converted basis.

Liquidation preference

In the event of any liquidation, all assets and funds of Koolearn Holding legally available for distribution to the shareholders (the "Liquidation Proceeds"), shall be distributed to the shareholders in the following manners:

- (i) Before any distribution or payment shall be made to the holders of any ordinary shares, the Series A shareholders, the Series B shareholders shall be entitled to receive for each outstanding Series B shares held, the higher of the following: (i) an amount equal to 100% of the Series B issue price, together with a 10% annual compound interest accrued thereon (calculated from the Series B issuance date to the date of the liquidation), plus all declared but unpaid dividends; or (ii) the pro rata share of the Liquidation Proceeds of the Series B shareholders calculated on an as-converted basis.
- (ii) Before any distribution or payment shall be made to the holders of any ordinary shares, each Series A shareholder shall be entitled to receive the higher of the following: (i) an amount equal to 120% of

the Series A issue price, plus all declared but unpaid dividends; or (ii) the pro rata share of the Liquidation Proceeds of the Series A shareholders calculated on an as-converted basis.

- (iii) After distribution or payment in full in pursuant to (i) and (ii), the remaining Liquidation Proceeds shall be distributed ratably among the ordinary shareholders of Koolearn Holding in proportion to the number of ordinary shares they held.

Redemption

To the extent permitted by applicable law and upon the occurrence of redemption events as defined in the articles of association of the Company, the Company is contractually obligated to redeem all or part of the issued and outstanding preferred shares upon request.

Conversion

Each preferred share shall automatically be converted into ordinary share of Koolearn Holding based on the then-effective conversion ratio (the "Conversion Price") applicable to such preferred share (i) upon the approval of Series A shareholders with respect to the conversion of Series A preferred shares, (ii) upon the approval of Series B shareholders with respect to the conversion of the Series B preferred shares, or (iii) immediately prior to the occurrence of a QIPO.

The Conversion Price of the preferred shares was initially the issuance price of the preferred shares at an initial conversion ratio of 1:1, and shall be adjusted from time to time for proportional adjustment (the "Proportional Adjustment"), which means the Conversion Price adjustment in the event that if at any time the number of outstanding ordinary shares proportionately changes.

16. COMMON SHARES AND TREASURY STOCK

As of May 31, 2018, 2019 and 2020, the Company had 300,000,000 common shares authorized with par value of US\$0.01.

The movement of the outstanding common shares and treasury stock is listed as below.

	<u>Number of common share</u>	<u>Number of treasury stock</u>
Shares outstanding as of June 1, 2017	157,687,444	691,943
Reissuance of treasury stock for NES	631,966	(631,966)
Reissuance of treasury stock for the exercises of options	500	(500)
Shares outstanding as of May 31, 2018	<u>158,319,910</u>	<u>59,477</u>
Reissuance of treasury stock for NES	59,477	(59,477)
Issuance of common share for NES	422,327	—
Shares repurchase	<u>(952,000)</u>	<u>952,000</u>
Shares outstanding as of May 31, 2019	<u>157,849,714</u>	<u>952,000</u>
Reissuance of treasury stock for NES	690,366	(690,366)
Shares outstanding as of May 31, 2020	<u><u>158,540,080</u></u>	<u><u>261,634</u></u>

17. SHARE-BASED COMPENSATION2016 Share Incentive Plan

The Company adopted 2016 Share Incentive Plan ("2016 Share Incentive Plan") in January 2016 to provide incentives to employees and directors after the expiration of the previous 2006 Share Incentive Plan. Under the 2016 Share Incentive Plan, the Company is authorized to issue up to 10,000,000 common shares pursuant to awards (including options) granted to its employees, directors and consultants. The 2016 Share Incentive Plan is effective upon its adoption by the board and continue in effect for a term of ten years unless sooner terminated. Since the adoption of the 2016 Share Incentive Plan, the Company has granted a total of 3,132,665 NES, among which 1,485,630, 1,029,304 and 181,715 were granted in the years ended May 31, 2018, 2019 and 2020, respectively. 47,006, 77,224 and 143,744 shares were forfeited during the years ended May 31, 2018, 2019 and 2020, respectively.

The Company's board of directors may at any time amend, suspend or terminate the 2016 Share Incentive Plan. The following amendments to the 2016 Share Incentive Plan require approval from the shareholders (i) increase of the number of shares available under the 2016 Share Incentive Plan, (ii) extension of the term of the 2016 Share Incentive Plan, (iii) extension of the exercise period of an option beyond ten years, and (iv) any other amendments about which shareholders' approval are necessary and desirable under applicable laws or stock exchange rules. The 2016 Share Incentive Plan is effective upon its adoption by the board and continue in effect for a term of ten years unless sooner terminated.

As of May 31, 2019, all options were fully vested and exercised.

The total intrinsic value of share options exercised during the years ended May 31, 2018, 2019 and 2020 were US\$38, nil and nil, respectively. As of May 31, 2020, there were no unrecognized compensation expenses related to share options granted.

As of May 31, 2020, 11,285,510 common shares out of 17,000,000 common shares were held by the depository bank, and 2,257,092 shares out of 6,198,349 treasury stock had been issued to employees and directors upon the exercise of their vested share options.

The exercise price of share options is at least 100% of the common share fair value on the date of the grant. The term of a share option is up to ten years from the date of grant. The share options generally vest over three years at six-month vesting increments per year.

NES

During the year ended May 31, 2020, 690,366 treasury stock had been issued to employees and directors upon the vesting of their NES. As of May 31, 2020, 5,136,817 common shares out of 17,000,000 common shares held by the depository bank had been issued to employees and directors upon the vesting of their NES, and 3,679,623 shares out of 6,198,349 treasury stock had been reissued to employees and directors upon the vesting of their NES.

The NES activities under the 2016 Share Incentive Plan for the Track Record Period are summarized as follows:

	Number of NES	Weighted- average grant date fair value and intrinsic value
		US\$
NES outstanding as of June 1, 2017	631,966	38.24
Granted	1,485,630	82.75
Vested	(631,966)	38.24
Forfeited	(47,006)	82.75
NES outstanding as of May 31, 2018	<u>1,438,624</u>	<u>82.75</u>
Granted	1,029,304	52.75
Vested	(481,804)	82.75
Forfeited	(77,224)	75.05
NES outstanding as of May 31, 2019	<u>1,908,900</u>	<u>66.89</u>
Granted	181,715	108.38
Vested	(690,366)	71.91
Forfeited	(143,744)	61.70
NES outstanding as of May 31, 2020	<u>1,256,505</u>	<u>70.73</u>
NES vested and expect to vest as of May 31, 2020	<u>1,256,505</u>	

The total fair value of NES vested during the years ended May 31, 2018, 2019 and 2020 were US\$24,167, US\$39,869 and US\$49,645, respectively. The weighted average grant date fair value of NES granted during the years ended May 31, 2018, 2019 and 2020 were US\$82.75, US\$52.75 and US\$108.38, respectively. As of May 31, 2020, the total unrecognized compensation expenses for NES of US\$20,404 are expected to be recognized over a weighted average period of 0.92 years.

The total compensation expenses are recognized on a straight-line basis over the respective vesting periods. The Group recorded the related compensation expenses of US\$57,443, US\$63,315 and US\$41,326 for the years ended May 31, 2018, 2019 and 2020, respectively.

Koolearn Pre-IPO Share Option Scheme

On July 13, 2018, the board of directors of Koolearn Holding approved an employee's share option plan (the "Pre-IPO Share Option Scheme"). The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time must not exceed 47,836,985 (representing approximately 5.23% of the total number of shares in issue immediately before the date of the commencement of dealings in the shares on the Stock Exchange (without taking into account any shares that may be issued upon the Listing and any over-allotment option).

On March 7, 2019, pursuant to the list of grantees and respective numbers of options approved by the board of directors of Koolearn Holding, Koolearn Holding granted a total of 47,836,985 options to 144 grantees, including the directors, senior management of Koolearn Holding, contractors and other employees of the Group. The exercise period is 6 years from the listing date of Koolearn Holding and the exercise price is US\$1.13.

The movements of share options under the Pre-IPO Share Option Scheme for the years ended May 31, 2019 and 2020 are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Granted on March 7, 2019	47,836,985	1.13
Forfeited	(3,065,500)	1.13
Canceled	(31,000)	1.13
Outstanding as of May 31, 2019	44,740,485	1.13
Forfeited	(2,360,000)	1.13
Canceled	(3,129,000)	1.13
Outstanding as of May 31, 2020	39,251,485	1.13

The grant date fair value of the option per share is US\$0.52 and the estimated fair value of the share options granted was US\$21,613 on March 7, 2019.

The Group used the discounted cash flow method to determine the fair value of underlying ordinary shares of Koolearn Holding with the assistance of an independent valuation specialist. Based on the fair value of the underlying ordinary shares of Koolearn Holding, the Group used the binomial option-pricing model to determine the fair value of the share option as of the grant date. Option valuation model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying shares, and changes in the subjective input assumptions can materially affect the fair value estimate of share options.

	March 7, 2019 Pre-IPO Share Option Scheme
Weighted average share price	US\$ 1.19
Exercise price	US\$ 1.13
Expected volatility	46.8%
Expected life	6 years
Risk-free rate	2.49%
Expected dividend yield	0.00%

Koolearn Holding recorded the related compensation expense of US\$8,021 and US\$ 8,391 for the years ended May 31, 2019 and 2020, respectively, in relation to the share options issued under the Pre-IPO Share Option Scheme.

Koolearn Post-IPO Share Option Scheme

On January 30, 2019, the board of directors of Koolearn Holding approved an employee's share option plan (the "Post-IPO Share Option Scheme").

On January 29, 2020, pursuant to the list of grantees and respective numbers of options approved by the board of directors of Koolearn Holding, Koolearn Holding granted a total of 40,000,000 options to 552 grantees, including the directors, senior management and other employees of Koolearn Holding.

The movements of share options under the Post-IPO Share Option Scheme are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Granted on January 29, 2020	40,000,000	3.26
Forfeited	(1,801,000)	3.26
Outstanding as of May 31, 2020	<u>38,199,000</u>	<u>3.26</u>

Koolearn Holding has used the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date as the fair value of underlying ordinary shares of Koolearn Holding. Based on the fair value of the underlying ordinary shares of Koolearn Holding, Koolearn Holding has used binomial option-pricing model to determine the fair value of the share option as of the grant date with the assistance of an independent valuation specialist. Option valuation model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying shares, and changes in the subjective input assumptions can materially affect the fair value estimate of share options.

	January 29, 2020 Post-IPO Share Option Scheme
Weighted average share price	US\$ 3.49
Exercise price	US\$ 3.26
Expected volatility	52%
Expected life	10 years
Risk-free rate	1.44%
Expected dividend yield	0.00%

Koolearn Holding recognized the total expense of US\$12,340 for the year ended May 31, 2020 in relation to the Post-IPO Share Option Scheme.

18. INCOME TAXES

Cayman Islands & BVI

The Company and Koolearn Holding are tax-exempted companies registered or incorporated in the Cayman Islands. Under the current law of the Cayman Islands, the Company and Koolearn Holding are not subject to income, corporate or capital gains tax, and the Cayman Islands currently have no form of estate duty, inheritance tax or gift tax. In addition, payments of dividends and capital in respect of their shares are not subject to taxation and no withholding will be required in the Cayman Islands on the payment of any dividend or capital to any holder of their shares, nor will gains derived from the disposal of their shares be subject to the Cayman Islands income or corporation tax.

The Company's subsidiary, Abundant State Limited, is incorporated in BVI and is not subject to income tax.

United States ("US")

Walkite International Academy (U.S.A.) Co., Ltd. and Blingabc Limited are incorporated in the U.S.A. and are subject to federal income tax and state income tax at 21% and 8.84%, respectively.

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code including, but not limited to, (1) reducing the U.S. federal corporate tax rate, (2) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years, and (3) bonus depreciation that will allow for full expensing of qualified property. The impact of the Tax Act is not material to the Group's operation and resulted in a decrease in income tax rate from 35% before January 1, 2018 to 21% after January 1, 2018 for tax and income earned as determined in accordance with the relevant tax rules and regulations.

United Kingdom ("UK")

Walkite International Academy Co., Ltd. and New Oriental Vision Overseas Consulting (U.K.) Ltd are incorporated in the UK and are subject to income tax rate at 19%.

Australia

New Oriental Vision Overseas Consulting Australia Pty Ltd. is incorporated in Australia and is subject to income tax rate at 30%.

Canada

Walkite International Academy (Canada) Co., Ltd and New Oriental Vision Overseas Consulting Canada Inc. are incorporated in Canada and are subject to income tax rate at 26.5%.

Hong Kong

Smart Shine, Winner Park, Elite Concept, One World Limited, Garden House Limited, Koolearn Tech and Asia Pacific are incorporated in Hong Kong. Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK\$2 million; and 16.5% on any part of assessable profits over HK\$2 million. Elite Concept and Smart Shine received special dividend of US\$69,567, US\$43,420 and US\$59,696 during the years ended May 31, 2018, 2019 and 2020, respectively. Withholding taxes of US\$6,957, US\$2,171 and US\$ 3,062 in connection with the dividends were fully paid during the years ended May 31, 2018, 2019 and 2020, respectively. No provision in Winner Park, One World Limited, Garden House Limited, Koolearn Tech and Asia Pacific for Hong Kong profit tax has been made in the consolidated financial statements as they do not have any assessable income for the years ended May 31, 2018, 2019 and 2020.

PRC

The Company's PRC subsidiaries, the VIEs, the VIE's subsidiaries and schools are subject to 25% standard enterprise income tax except for those accepted as qualified for small-scale enterprises, or granted preferential tax treatment.

Enterprises that qualify as a high and new technology enterprise ("HNTE") are subject to a tax rate of 15%. Beijing Right Time, Beijing Joy Trend, Beijing Decision, Beijing Hewstone and Xuncheng's HNTE certificates terminated as of December 31, 2019, and these enterprises are in the process of renewing their qualification of "high and new technology enterprises." Once their renewals are completed, these companies will be eligible for a favorable enterprise income tax rate of 15% starting January 1, 2020. Beijing Smart Wood, Beijing Pioneer, Beijing Top, Beijing Shenghe, Dogwood and Kuxue Huisi continued to qualify as HNTE and were subject to a tax rate of 15% during the year ended May 31, 2020.

Enterprises that qualify as the newly established software enterprise (“NESE”) are exempt from the Enterprise Income Tax (“EIT”) for two years beginning the enterprise’s first profitable year followed by a tax rate of 12.5% for the succeeding three years. Beijing Magnificence, Beijing Jinghong, Beijing Zhiyuan Hangcheng Software Technology Company Limited, Beijing Chuangying Oriental Technology Co., Ltd and Beijing Zhihong Oriental Technology Co., Ltd were qualified as NESE and enjoyed the EIT tax benefit from January 2015 to December 2019, from January 2017 to December 2021, from January 2019 to December 2023, from January 2019 to December 2023, and from January 2019 to December 2023, respectively.

Beijing Magnificence has been recognized as HNTE in December 2019. This company is entitled to enjoy the tax rate of 15% since January 1, 2020.

Since its establishment through May 31, 2020, Beijing Haidian School was not required by the governing tax bureau to pay any EIT. If Beijing Haidian School is required to pay EIT in the future, this could have material impact to the Group’s consolidated financial statements. However, the Group believes that it is more likely than not that any change to the tax treatment of Beijing Haidian School shall be prospectively applied.

Significant components of provision for income taxes for the years ended May 31, 2018, 2019 and 2020 were as follows:

		For the years ended May 31,		
		2018	2019	2020
		US\$	US\$	US\$
Current:				
PRC		72,785	103,031	142,992
Deferred:				
PRC		(13,377)	(17,317)	(8,630)
Total provision for income taxes		59,408	85,714	134,362

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Group's deferred tax assets and liabilities were as follows:

	As of May 31,		
	2018 US\$	2019 US\$	2020 US\$
Deferred tax assets			
Allowance doubtful accounts	1,965	3,523	4,677
Accrued expenses	32,253	43,212	55,172
Net operating loss carry-forward	14,611	22,299	43,049
Tax impact from the long term investments disposed to a related party	—	1,521	1,521
Total deferred tax assets	48,829	70,555	104,419
Less: valuation allowance	(5,506)	(9,088)	(41,095)
Total deferred tax assets, net	43,323	61,467	63,324
Deferred tax liabilities			
Acquired assets	3,308	5,038	3,598
Tax impact from the unrealized gain on available-for- sale investments	8,825	13,743	8,308
Total deferred tax liabilities	12,133	18,781	11,906

The Group does not file combined or consolidated tax returns, therefore, losses from individual subsidiaries or the VIEs may not be used to offset other subsidiaries' earnings within the Group.

The Group determined the valuation allowance on an entity by entity basis. The valuation allowance, which is primarily related to entities with net operating loss carry-forwards for which the Company does not believe it will ultimately be realized, was US\$5,506, US\$9,088 and US\$41,095 as of May 31, 2018, 2019 and 2020, respectively.

As of May 31, 2020, the Group had net operating loss carried-forwards of US\$202,077 from the Company's PRC subsidiaries, the VIEs, the VIE's subsidiaries and schools which will expire on various dates from May 31, 2021 to May 31, 2025.

A reconciliation of the effective tax rates from 25% statutory tax rates for the years ended May 31, 2018, 2019 and 2020 was as follows:

	For the years ended May 31,		
	2018 %	2019 %	2020 %
Statutory tax rate	25.00	25.00	25.00
Effect of not deductible expenses for tax purposes	4.35	16.70	5.93
Tax effect of exempt entities	(8.10)	(6.91)	(5.50)
Effect of tax holiday	(5.70)	(9.73)	(5.13)
Changes in valuation allowance	0.43	1.13	6.53
Effect of dividend withholding tax	0.66	0.77	0.63
Effective tax rate	16.64	26.96	27.46

If the WFOE and certain subsidiaries and schools of the VIEs did not enjoy income tax exemptions and preferential tax rates for the years ended May 31, 2018, 2019 and 2020, the increase in income tax expenses and the decrease in net income per share amounts would be as follows:

	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Increase in income tax expenses	48,444	51,002	50,809
Decrease in net income per share - basic	0.31	0.32	0.32
Decrease in net income per share - diluted	<u>0.31</u>	<u>0.32</u>	<u>0.32</u>

Under the New Income Tax Law effective from January 1, 2008, the rules for determining whether an entity is resident in the PRC for tax purposes have changed and the determination of residence depends among other things on the “place of actual management”. If the Group, or its non-PRC subsidiaries, were to be determined as a PRC resident for tax purposes, they would be subject to a 25% income tax rate on their worldwide income including the income arising in jurisdictions outside the PRC. The Group does not believe that its legal entities organized outside of the PRC are considered the PRC residents.

If the Company were to be a non-resident for the PRC tax purposes, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by the PRC schools and subsidiaries to their foreign investors, the withholding tax would be 10%, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. During the year ended May 31, 2018, Beijing Hewstone, Shanghai Smart Words, Beijing Smart Wood and Beijing Pioneer paid US\$6,957 withholding tax when they paid a special dividend to their parent companies, Elite Concept and Smart Shine. In November 2018, Elite Concept started to enjoy a preferential tax rate of 5% under tax treaty treatment. During the year ended May 31, 2019, Beijing Decision paid US\$2,171 withholding tax when they paid a special dividend to Elite Concept. During the year ended May 31, 2020, Beijing Decision, Beijing Hewstone, Beijing Right Time, Beijing Top and Beijing Magnificence paid US\$3,062 withholding tax when they paid a special dividend to Elite Concept.

Aggregate undistributed earnings of the Company’s PRC subsidiaries and the VIEs that are available for distribution were US\$1,819,317, US\$1,972,912 and US\$2,279,550 as of May 31, 2018, 2019 and 2020, respectively. Upon distribution of such earnings, the Company will be subject to the PRC EIT, the amount of which is impractical to estimate. The Company did not record any withholding tax on any of the aforementioned undistributed earnings because the relevant subsidiaries and the VIEs do not intend to declare dividends and the Company intends to permanently reinvest it within the PRC. Additionally, no deferred tax liabilities were recorded for taxable temporary differences attributable to the undistributed earnings because the Company believes the undistributed earnings can be distributed in a manner that would not be subject to income tax.

The Group did not identify any significant unrecognized tax benefits for the years ended May 31, 2018, 2019 and 2020. The Group did not incur any significant interest and penalties related to potential underpaid income tax expenses and also does not anticipate any significant increases or decreases in unrecognized tax benefits in the next twelve months. The Group has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future periods.

According to the PRC Tax Administration and Collection Law, the tax authority may require the taxpayer or the withholding agent to make delinquent tax payment within three years if the underpayment of taxes is resulted from the tax authority’s act or error. No late payment surcharge will be assessed under such

circumstances. The statute of limitation will be three years if the underpayment of taxes is due to the computational errors made by the taxpayer or the withholding agent. Late payment surcharge will be assessed in such case. The statute of limitation will be extended to five years under special circumstances which are not clearly defined (but an underpayment of tax liability exceeding US\$16 (RMB0.1 million) is specifically listed as a “special circumstance”). The statute of limitation for transfer pricing related issue is ten years. There is no statute of limitation in the case of tax evasion. Therefore, the Group’s PRC domiciled entities are subject to examination by the PRC tax authorities based on the above.

19. NET INCOME PER SHARE

The computation of basic and diluted net income per common share for the years ended May 31, 2018, 2019 and 2020 was as follows:

	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Numerator:			
Net income attributable to New Oriental Education & Technology Group Inc.’s shareholders	296,130	238,065	413,333
Net income available for future distribution	296,130	238,065	413,333
Denominator			
Weighted average common shares outstanding-basic	158,168,794	158,293,890	158,429,576
Plus: incremental weighted average common shares from assumed vesting of NES using the treasury stock method	387,706	745,455	1,107,314
Weighted average common shares outstanding-diluted	158,556,500	159,039,345	159,536,890
Net income per common share			
- Basic	1.87	1.50	2.61
- Diluted	1.87	1.50	2.59

There was no employee share options included from the dilutive share calculation for the years ended May 31, 2018, 2019 and 2020 due to anti- dilutive effects.

20. RELATED-PARTIES TRANSACTIONS

The Group had the following balances and transactions with related parties:

(a) Balances:

	Notes	Relationship	Amounts due from related parties, current As of May 31,			Amounts due to related parties, current As of May 31,		
			2018	2019	2020	2018	2019	2020
			US\$	US\$	US\$	US\$	US\$	US\$
Metropolis Holding China Limited ("Metropolis") . . .	(1)	Company controlled by Mr. Yu	787	15,581	1,951	—	—	159
Beijing Dianshi Jingwei Technology Co., Ltd ("Dianshi Jingwei")	(2)	Equity method investee	—	15,211	—	—	—	—
Education Industry Fund		Equity method investee	—	8,692	—	—	—	—
Others	(3)		808	3,160	1,433	30	472	1,431
Total			1,595	42,644	3,384	30	472	1,590

	Notes	Relationship	Amounts due from related parties, non-current As of May 31,		
			2018	2019	2020
			US\$	US\$	US\$
Metropolis	(1)	Company controlled by Mr. Yu	2,226	1,204	1,550
Dianshi Jingwei	(2)	Equity method investee	—	—	21,024
Others	(3)		—	—	135
Total			2,226	1,204	22,709

(b) Transactions:

				Rental expenses For the years ended May 31,		
				2018	2019	2020
				US\$	US\$	US\$
Metropolis	(1)	Company controlled by Mr. Yu		<u>7,899</u>	<u>7,888</u>	<u>9,615</u>
				Loans provided to related parties For the years ended May 31,		
				2018	2019	2020
				US\$	US\$	US\$
Dianshi Jingwei	(2)	Equity method investee		<u>—</u>	<u>61,155</u>	<u>7,128</u>
Total				<u>—</u>	<u>61,155</u>	<u>7,128</u>
				Revenues For the years ended May 31,		
				2018	2019	2020
				US\$	US\$	US\$
Beijing Fishpond Software Technology Co., Ltd. ("Fishpond")		Equity method investee		<u>—</u>	<u>1,060</u>	<u>438</u>
Others	(4)			<u>92</u>	<u>—</u>	<u>41</u>
Total				<u>92</u>	<u>1,060</u>	<u>479</u>
				Cost For the years ended May 31,		
				2018	2019	2020
				US\$	US\$	US\$
EEO		Equity securities without readily determinable fair values investee		<u>—</u>	<u>2,408</u>	<u>3,239</u>
Beijing Dongfang Heli Investment and Development Ltd ("Dongfang Heli")		Equity method investee		<u>—</u>	<u>1,064</u>	<u>1,700</u>
Others	(4)			<u>—</u>	<u>460</u>	<u>31</u>
Total				<u>—</u>	<u>3,932</u>	<u>4,970</u>

- (1) Since April 2010, the Group began renting a large portion of a building owned by Metropolis for office space. In March 2012, Metropolis was acquired by a company wholly-owned by Mr. Yu, the Group's executive chairman. As a result, Metropolis became a related party of the Group. As of May 31, 2020, the current and non-current amounts due from Metropolis were US\$1,951 and US\$ 1,550, respectively, which represented prepaid rent related to a short-term lease and deposit for the building. The amount of the rental payments was determined based on the prevailing market rates and was duly approved by the Group's board of directors.
- (2) In April 2016, the Group sold 51% of the equity interest of its fully-owned subsidiary Dianshi Jingwei and Dianshi Jingwei became an equity method investee of the Group. As of May 31, 2020, amounts due from Dianshi Jingwei included five outstanding loans provided by the Group with annual interest rate of 10%. The loans were initially granted in 2018 but were extended several times and recorded as

non-current assets as of May 31, 2020. During the years ended of May 31, 2018, 2019 and 2020, no interests were received by the Group. The extended loans were personally guaranteed by Mr. Yu and Mr. Yunhai Jia ("Mr. Jia"), the chief executive officer of Dianshi Jingwei.

According to the loan agreements, if Dianshi Jingwei defaults on the loan payments and interests, the Group has the right to convert the unpaid loans into Dianshi Jingwei's equity. During the year ended of May 31, 2020, Dianshi Jingwei repaid US\$701 to the Group.

- (3) As of May 31, 2018, 2019 and 2020, the balance in "others" included the receivables from and payables to long-term investees.
- (4) As of May 31, 2018, 2019 and 2020, the balance in "others" included the revenue and cost from long-term investees.

21. COMMITMENTS AND CONTINGENCIES

Capital commitments

The future minimum capital commitments were as follows:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Capital commitment for the purchase of property and equipment	2,112	1,665	4,148
Capital commitment for leasehold improvements	29,875	24,395	28,901
	<u>31,987</u>	<u>26,060</u>	<u>33,049</u>

Contingent liabilities

The Group has been named in a number of lawsuits arising in its ordinary course of business. Although the outcome of those lawsuits are uncertain, the Group does not believe the possibility of loss is probable. The Group is unable to estimate a range of loss, if any, that could result if there would be an adverse decision, as such, and the Group has not accrued any liabilities.

22. NON-CONTROLLING INTERESTS

	Non-controlling interests
	US\$
Balance as of June 1, 2017	39,130
Capital contribution from non-controlling interests and new non-controlling interests recognized in acquisitions	2,015
Capital reduction of non-controlling interests	(28,652)
Dividend declared	(231)
Unrealized gain on available-for-sale investments	164
Foreign currency translation adjustment	2,949
Net income attributed to non-controlling interests	1,107
Balance as of May 31, 2018	16,482
Non-controlling interests arising from acquisitions	288
Purchase of non-controlling interests	(1,696)
Disposal of a subsidiary	80
Capital contribution from non-controlling interests	5,317
Change in non-controlling interests resulting from Koolearn Holding's IPO, net of issuance cost	94,136
Reclassification of redeemable non-controlling interests	60,934
Unrealized gain on available-for-sale investments	465
Foreign currency translation adjustment	(1,376)
Net loss attributed to non-controlling interests	(10,219)
Balance as of May 31, 2019	164,411
Purchase of non-controlling interests	6,675
Capital contribution from non-controlling interests	(39)
Share-based compensation expenses from Koolearn Holding	20,731
Exercise of share options in Koolearn Holding	3,629
Foreign currency translation adjustment	(417)
Net loss attributed to non-controlling interests	(58,474)
Balance as of May 31, 2020	136,516

The effects of changes in the Company's ownership interest on the Company's equity were as follows:

	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Net income attribute to New Oriental Education & Technology Group Inc.'s shareholders	296,130	238,065	413,333
Share option gain	—	—	5,752
Decrease in the Group's additional paid-in capital resulting from disposal of a subsidiary	—	(371)	—
(Decrease) increase in the Group's additional paid-in capital resulting from reclassification and capital injection of non-controlling interests	(113,784)	160,871	103
Increase in the Group's additional paid-in capital resulting from the change in non-controlling interests resulting from Koolearn Holding's IPO	—	139,211	—
Decrease in the Group's additional paid-in capital resulting from repurchase shares from non-controlling interests	<u>(63,721)</u>	<u>(15,190)</u>	<u>(20,045)</u>
Changes from net income attributable to New Oriental Education & Technology Group Inc.'s shareholders and transfers to non-controlling interests	<u>118,625</u>	<u>522,586</u>	<u>399,143</u>

23. SEGMENT INFORMATION

The Group's chief operating decision maker has been identified as the Chief Executive Officer who reviews financial information of operating segments based on US GAAP amounts when making decisions about allocating resources and assessing performance of the Group. The Group identified seven operating segments, including K-12 AST, test preparation and other courses (formerly known as language training and test preparation courses), primary and secondary school education, online education, content development and distribution, overseas study consulting services, pre-school education and study tour, for the years ended May 31, 2018, 2019 and 2020. K-12 AST, test preparation and other courses, previously referred as Language training and test preparation, has been identified as a reportable segment. Online education, content development and distribution, overseas study consulting services, pre-school education, primary and secondary school education and study tour operating segments were aggregated as others because individually they do not exceed the 10% quantitative threshold.

The Group primarily operates 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 revenue, operating cost and expenses, and operating income. Net revenues, operating cost and expenses, operating income, and total assets by segment were as follows:

For the year ended May 31, 2018

	K-12 AST, test preparation and other courses	Others	Consolidated
	US\$	US\$	US\$
Net revenues	<u>2,022,978</u>	<u>424,452</u>	<u>2,447,430</u>
Operating cost and expenses:			
Cost of revenues	(869,012)	(196,728)	(1,065,740)
Selling and marketing	(193,851)	(99,549)	(293,400)
General and administrative	(504,985)	(108,343)	(613,328)
Unallocated corporate expenses	<u>—</u>	<u>—</u>	<u>(212,003)</u>
Total operating cost and expenses	<u>(1,567,848)</u>	<u>(404,620)</u>	<u>(2,184,471)</u>
Operating income	<u>455,130</u>	<u>19,832</u>	<u>262,959</u>
Segment assets	1,898,504	844,691	2,743,195
Unallocated corporate assets	<u>—</u>	<u>—</u>	<u>1,234,517</u>
Total assets	<u><u>1,898,504</u></u>	<u><u>844,691</u></u>	<u><u>3,977,712</u></u>

For the year ended May 31, 2019

	K-12 AST, test preparation and other courses	Others	Consolidated
	US\$	US\$	US\$
Net revenues	<u>2,605,829</u>	<u>490,662</u>	<u>3,096,491</u>
Operating cost and expenses:			
Cost of revenues	(1,128,355)	(247,914)	(1,376,269)
Selling and marketing	(212,170)	(145,228)	(357,398)
General and administrative	(675,315)	(149,193)	(824,508)
Unallocated corporate expenses	<u>—</u>	<u>—</u>	<u>(236,409)</u>
Total operating cost and expenses	<u>(2,015,840)</u>	<u>(542,335)</u>	<u>(2,794,584)</u>
Gain on disposal of a subsidiary	<u>—</u>	<u>—</u>	<u>3,627</u>
Operating income (loss)	<u>589,989</u>	<u>(51,673)</u>	<u>305,534</u>
Segment assets	<u>2,226,344</u>	<u>1,118,884</u>	<u>3,345,228</u>
Unallocated corporate assets	<u>—</u>	<u>—</u>	<u>1,301,331</u>
Total assets	<u><u>2,226,344</u></u>	<u><u>1,118,884</u></u>	<u><u>4,646,559</u></u>

For the year ended May 31, 2020

	K-12 AST, test preparation and other courses	Others	Consolidated
	US\$	US\$	US\$
Net revenues	3,040,741	537,941	3,578,682
Operating cost and expenses:			
Cost of revenues	(1,304,239)	(284,660)	(1,588,899)
Selling and marketing	(218,739)	(202,733)	(421,472)
General and administrative	(729,125)	(179,349)	(908,474)
Unallocated corporate expenses	—	—	(260,834)
Total operating cost and expenses	(2,252,103)	(666,742)	(3,179,679)
Operating income (loss)	788,638	(128,801)	399,003
Segment assets	3,588,900	1,388,730	4,977,630
Unallocated corporate assets	—	—	1,579,255
Total assets	3,588,900	1,388,730	6,556,885

24. MAINLAND CHINA CONTRIBUTION PLAN

The Group's full time employees in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contributions for such employee benefits were US\$129,334, US\$178,057 and US\$217,127 for the years ended May 31, 2018, 2019 and 2020, respectively.

25. STATUTORY RESERVES

Prior to payment of dividends, pursuant to the laws applicable to the PRC's Foreign Investment Enterprises, the Company's subsidiaries and the VIEs in the PRC must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of each company. These reserves include (i) general reserve and (ii) the development fund.

Subject to certain cumulative limits, the general reserve requires annual appropriations of 10% of after-tax profits as determined under the PRC laws and regulations at each year-end until the balance reaches 50% of the PRC entity registered capital; the other reserve appropriations are at the Company's discretion. These reserves can only be used for specific purposes of enterprise expansion and are not distributable as cash dividends. During the years ended May 31, 2018, 2019 and 2020, US\$1,830, US\$1,875 and US\$1,506 were accrued for the general reserve, respectively.

The PRC laws and regulations require private schools that require reasonable returns to make annual appropriations of 25% of after-tax income prior to payments of dividend to its development fund, which is to be used for the construction or maintenance of the school or procurement or upgrading of educational equipment, while in the case of a private school that does not require reasonable return, this amount should be equivalent to no less than 25% of the annual increase of net assets of the school as determined in accordance with generally accepted accounting principles in the PRC. During the years ended May 31,

2018, 2019 and 2020, appropriations to the development fund amounted to US\$41,713, US\$40,136 and US\$73,043, respectively.

These reserves are included as statutory reserves in the consolidated statements of changes in equity and comprehensive income. The Group allocated US\$43,543, US\$42,011 and US\$74,549 to statutory reserves during the years ended May 31, 2018, 2019 and 2020, respectively.

26. RESTRICTED NET ASSETS

Relevant PRC laws and regulations restrict the WFOEs and the VIEs from transferring a portion of their net assets, equivalent to the balance of their statutory reserves and their share capital, to the Company in the form of loans, advances or cash dividends, except in the event of liquidation. The balance of restricted net assets was US\$542,534, US\$472,924 and US\$513,721, of which US\$448,103, US\$437,121 and US\$464,917 was attributed to the paid-in capital, additional paid-in capital and statutory reserves of the VIEs and US\$94,431, US\$35,803 and US\$48,804 was attributed to the paid-in capital, additional paid-in capital and statutory reserves of the WFOEs, as of May 31, 2018, 2019 and 2020, respectively. The WFOEs' accumulated profits may be distributed as dividends to the Company without the consent of a third party. The VIEs' revenues and accumulated profits may be transferred to the Company through contractual arrangements without the consent of a third party. Under applicable PRC law, loans from the PRC companies to their offshore affiliated entities require governmental approval, and advances by the PRC companies to their offshore affiliated entities must be supported by bona fide business transactions.

27. SUBSEQUENT EVENTS

On July 2, 2020, the Company issued US\$300,000 bond due on July 2, 2025 (the "Bond"). The Bond bears interest at a rate of 2.125% per year, payable semiannually in arrears on January 2 and July 2 of each year commencing January 2, 2021. The net proceeds from the Bond, after deducting the issuance costs were US\$297,083. The Company has accounted for the Bond as a single instrument and recorded the proceeds, net of the issuance cost, as bond payable.

On September 8, 2020, Koolearn Holding entered into a subscription agreement with the Company and another subscriber, pursuant to which the Company and the another subscriber conditionally agreed to subscribe for, and Koolearn Holding has conditionally agreed to allot and issue 51,680,000 and 7,752,000 new shares, respectively, at the subscription price of US\$ 3.87 per subscription share (corresponding to approximately HK\$30.00 per subscription share), for an aggregate subscription amount of US\$230 million (corresponding to approximately HK\$1,783 million).

COVID-19 has spread rapidly to many parts of China and other parts of the world in the first quarter of calendar year 2020. The epidemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and facilities in China and elsewhere. Substantially all of the Group's revenue and workforce are concentrated in China. Consequently, the COVID-19 outbreak may continue affect the Group's business operations and its financial condition and operating results for fiscal year 2021, including but not limited to negative impact to the Group's total revenues, fair value adjustments or impairment to the Group's long term investments.

28. DIVIDENDS

During the year ended May 31, 2018, the Company declared and paid dividends of US\$0.45 per ADS amounting to US\$71,153 in aggregate to its shareholders.

No other dividend was declared or paid by the Company in respect of the Track Record Period.

29. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to the end of the Track Record Period.

The following is the text of a report set out on pages IA-1 to IA-2, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. The information set out below is the unaudited interim condensed consolidated financial statements of the Company for the three months ended August 31, 2020, and does not form part of the Accountants' Report from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for information purpose only.



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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of New Oriental Education & Technology Group Inc.
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial statements of New Oriental Education & Technology Group Inc. (the “Company”), its consolidated subsidiaries, its variable interest entities (the “VIEs”) and the VIEs’ subsidiaries and schools (together, the “Group”) set out on pages IA-3 to IA-39, which comprise the condensed consolidated balance sheet of the Group as of August 31, 2020 and the related condensed consolidated statement of operation, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the three-month period then ended, and certain explanatory notes. The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with U.S. GAAP.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
October 29, 2020

APPENDIX IA
**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**
UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands, except share and per share data, or otherwise noted)

	Notes	As of May 31, 2020 US\$	As of August 31, 2020 US\$
ASSETS			
Current assets			
Cash and cash equivalents		915,057	1,047,605
Term deposits		284,793	291,762
Short-term investments	3	2,318,280	2,778,408
Accounts receivable		4,178	4,939
Inventory, net		31,324	31,093
Prepaid expenses and other current assets		199,404	201,298
Amounts due from related parties, current	11	3,384	29,320
Total current assets		3,756,420	4,384,425
Restricted cash, non-current		4,367	4,874
Property and equipment, net		672,455	743,813
Land use rights, net		6,037	6,249
Amounts due from related parties, non-current	11	22,709	22,995
Long-term deposits		62,116	65,122
Intangible assets, net		10,246	11,010
Goodwill, net		80,366	90,225
Long-term investments, net	4	431,101	434,756
Deferred tax assets, non-current, net	9	63,324	49,085
Right-of-use assets	6	1,425,466	1,487,164
Other non-current assets		22,278	29,547
Total assets		<u>6,556,885</u>	<u>7,329,265</u>
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable (including accounts payable of the consolidated variable interest entities without recourse to the Company of US\$31,658 and US\$32,112 as of May 31, 2020 and August 31, 2020, respectively)		33,147	34,432
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated variable interest entities without recourse to the Company of US\$581,576 and US\$586,817 as of May 31, 2020 and August 31, 2020, respectively)		634,619	630,622
Income taxes payable (including income taxes payable of the consolidated variable interest entities without recourse to the Company of US\$87,331 and US\$128,710 as of May 31, 2020 and August 31, 2020, respectively)		101,385	135,741
Amounts due to related parties, current (including amounts due to related parties, current of the consolidated variable interest entities without recourse to the Company of US\$1,590 and US\$1,817 as of May 31, 2020 and August 31, 2020, respectively)	11	1,590	1,817

APPENDIX IA

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET — CONTINUED

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

	Notes	As of May 31, 2020 US\$	As of August 31, 2020 US\$
Deferred revenue (including deferred revenue of the consolidated variable interest entities without recourse to the Company of US\$1,317,645 and US\$1,558,757 as of May 31, 2020 and August 31, 2020, respectively) . .		1,324,384	1,563,138
Operating lease liabilities, current (including operating lease liabilities, current of the consolidated variable interest entities without recourse to the Company of US\$376,177 and US\$397,735 as of May 31, 2020 and August 31, 2020, respectively)	6	384,239	411,608
Total current liabilities		<u>2,479,364</u>	<u>2,777,358</u>
Deferred tax liabilities, non-current (including deferred tax liabilities, non-current of the consolidated variable interest entities without recourse to the Company of US\$12,392 and US\$13,236 as of May 31, 2020 and August 31, 2020, respectively)	9	11,906	13,348
Long-term loan (including long-term loan of the consolidated variable interest entities without recourse to the Company of nil and nil as of May 31, 2020 and August 31, 2020, respectively)		117,881	—
Unsecured senior notes (including unsecured senior notes of the consolidated variable interest entities without recourse to the Company of nil and nil as of May 31, 2020 and August 31, 2020, respectively) . . .	7	—	298,226
Operating lease liabilities, non-current (including operating lease liabilities, non-current of the consolidated variable interest entities without recourse to the Company of US\$1,054,149 and US\$1,059,956 as of May 31, 2020 and August 31, 2020, respectively)	6	1,077,923	1,091,258
Total liabilities		<u>3,687,074</u>	<u>4,180,190</u>
Equity			
Common shares (US\$0.01 par value; 300,000,000 shares authorized as of May 31, 2020 and August 31, 2020; 158,801,714 and 159,110,715 shares issued as of May 31, 2020 and August 31, 2020; 158,540,080 and 159,110,715 shares outstanding as of May 31, 2020 and August 31, 2020, respectively)		1,588	1,591
Treasury stock		(3)	—
Additional paid-in capital		456,088	461,844
Statutory reserves		380,078	380,078
Retained earnings		1,986,411	2,161,063
Accumulated other comprehensive (loss) income		(90,867)	20,488
Total New Oriental Education & Technology Group Inc.'s shareholders' equity		2,733,295	3,025,064
Non-controlling interests		136,516	124,011
Total equity		<u>2,869,811</u>	<u>3,149,075</u>
Total liabilities and equity		<u>6,556,885</u>	<u>7,329,265</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

APPENDIX IA

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATION

(All amounts in thousands, except for share and per share data, or otherwise noted)

	Notes	For the three months ended August 31,	
		2019	2020
		US\$	US\$
Net revenues			
Educational programs and services		996,532	935,587
Books and other services		75,245	50,779
Total net revenues	13	1,071,777	986,366
Operating cost and expenses			
Cost of revenues		(440,229)	(464,866)
Selling and marketing		(101,193)	(116,883)
General and administrative		(284,159)	(254,312)
Total operating cost and expenses		(825,581)	(836,061)
Operating income		246,196	150,305
Other income, net		8,671	62,818
Provision for income taxes	9	(50,836)	(59,122)
Loss from equity method investments		(803)	(3,167)
Net income		203,228	150,834
Less: Net loss attributable to non-controlling interests		(5,762)	(23,818)
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders		208,990	174,652
Net income per common share (Note 10)			
- Basic	10	1.32	1.10
- Diluted	10	1.31	1.09
Weighted average shares used in calculating basic and diluted net income per common share			
- Basic	10	158,246,454	158,930,841
- Diluted	10	159,667,569	159,769,635

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME**

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

	For the three months ended August 31,	
	2019	2020
	US\$	US\$
Net income	203,228	150,834
Other comprehensive (loss) income, net of tax		
Foreign currency translation adjustment	(75,608)	111,989
Unrealized gain on available-for-sale investments, net of tax effect of US\$41 and US\$11 for the three months ended August 31, 2019 and 2020, respectively	122	34
Other comprehensive (loss) income, net of tax	(75,486)	112,023
Comprehensive income	127,742	262,857
Less: Comprehensive loss attributable to non-controlling interests	(6,087)	(23,149)
Comprehensive income attributable to New Oriental Education & Technology Group Inc.'s shareholders	<u>133,829</u>	<u>286,006</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts in thousands, except for share data)

	Total New Oriental Education & Technology Group Inc.'s shareholders' equity											
	Common shares		Additional paid-in capital		Treasury stock	Accumulated other comprehensive loss		Statutory reserves	Retained earnings	Group Inc.'s shareholders' equity	Non-controlling interests	Total shareholders' equity
	Number	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of June 1, 2019	157,849,714	1,588	428,959	(10)	—	(23,007)	305,529	1,647,627	2,360,686	164,411	2,525,097	
Issuance of treasury stock and common shares for non-vested equity shares ("NES")	579,366	—	(6)	6	—	—	—	—	—	—	—	
Share-based compensation expenses (Note 8)	—	—	8,594	—	—	—	—	—	8,594	2,426	11,020	
Net income	—	—	—	—	—	—	—	208,990	208,990	(5,762)	203,228	
Foreign currency translation adjustment	—	—	—	—	—	(75,283)	—	—	(75,283)	(325)	(75,608)	
Unrealized gain on available-for-sale investments, net of tax effect of US\$41	—	—	—	—	—	122	—	—	122	—	122	
Balance as of August 31, 2019	158,429,080	1,588	437,547	(4)	—	(98,168)	305,529	1,856,617	2,503,109	160,750	2,663,859	

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY — CONTINUED
(All amounts in thousands, except for share data)

	Common shares		Additional paid-in capital		Treasury stock	Accumulated other comprehensive (loss) income		Statutory reserves	Retained earnings	Total New Oriental Education & Technology Group Inc.'s shareholders' equity	Non-controlling interests	Total shareholders' equity
	Number	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of June 1, 2020 . . .	158,540,080	1,588	456,088	(3)	(90,867)	380,078	1,986,411	2,733,295	136,516	2,869,811		
Issuance of treasury stock and common shares for NES . . .	570,635	3	(6)	3	—	—	—	—	—	—		
Share-based compensation expenses (Note 8)	—	—	5,762	—	—	—	—	5,762	10,071	15,833		
Exercise of share options												
Koolearn Technology Holding Limited ("Koolearn Holding")	—	—	—	—	—	—	—	—	574	574		
Net income	—	—	—	—	—	—	174,652	174,652	(23,818)	150,834		
Foreign currency translation adjustment	—	—	—	—	111,321	—	—	111,321	668	111,989		
Unrealized gain on available-for-sale investments, net of tax effect of US\$11	—	—	—	—	34	—	—	34	—	34		
Balance as of August 31, 2020	159,110,715	1,591	461,844	—	20,488	380,078	2,161,063	3,025,064	124,011	3,149,075		

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands)

	For the three months ended August 31,	
	2019	2020
	US\$	US\$
Cash flows from operating activities		
Net income	203,228	150,834
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property and equipment	33,288	44,915
Amortization of intangible assets	877	1,212
Amortization of land use rights	41	41
Loss on disposal of property and equipment	484	1,248
Impairment loss from long-term investments	4,211	—
Loss (gain) from fair value change of long-term investments	11,282	(1,246)
Share-based compensation expenses	11,020	15,833
Allowance for doubtful accounts/credit losses	8	63
Loss from equity method investments	803	3,167
Deferred income taxes	(1,828)	15,993
Changes in operating assets and liabilities		
Accounts receivable	(807)	(476)
Inventory	(1,653)	1,519
Prepaid expenses and other current assets	(28,630)	16,014
Amounts due from related parties	1,150	2,079
Long-term deposits	(612)	(392)
Right-of-use assets	(11,712)	(1,825)
Accounts payable	3,140	(109)
Accrued expenses and other current liabilities	6,681	(48,464)
Income taxes payable	40,340	33,426
Amounts due to related parties	521	157
Deferred revenue	77,719	177,806
Operating lease liabilities	15,018	(20,197)
Net cash provided by operating activities	<u>364,569</u>	<u>391,598</u>
Cash flows from investing activities		
Purchase of term deposits	(203,225)	(220,198)
Proceeds from maturity of term deposits	11,770	216,410
Payments for short-term investments	(726,897)	(914,183)
Proceeds from maturity of short-term investments	259,166	559,607
Purchase of property and equipment	(64,299)	(95,232)
Payments for long-term investments	(55,991)	(17,479)
Other investing activities	4,247	2,171
Net cash used in investing activities	<u>(775,229)</u>	<u>(468,904)</u>

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS —
CONTINUED
(All amounts in thousands)**

	For the three months ended August 31,	
	2019	2020
	US\$	US\$
Cash flows from financing activities		
Net proceeds from unsecured senior notes	—	297,083
Repayment of long-term loan	—	(120,000)
Other financing activities	1,569	(1,230)
Net cash provided by financing activities	1,569	175,853
Effects of exchange rate changes	(32,253)	34,508
Net change in cash, cash equivalents and restricted cash	(441,344)	133,055
Cash, cash equivalents and restricted cash at beginning of period	1,418,227	919,424
Cash, cash equivalents and restricted cash at end of period	976,883	1,052,479
Supplement disclosure of cash flow information:		
Income taxes paid	11,254	9,228
Interests paid	771	1,031
Non-cash investing and financing activities:		
Payable for investments and acquisitions	20,233	3,096
Payable for purchase of property and equipment	48,432	71,741

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

**NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

FOR THE THREE MONTHS ENDED AUGUST 31, 2020

(All amounts in thousands, except for share and per share data, or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

New Oriental Education & Technology Group Inc. (the “Company”) was continued and registered in the Cayman Islands. The Company, its consolidated subsidiaries and its variable interest entities (the “VIEs”) and the VIEs’ subsidiaries and schools are collectively referred to as the “Group”.

The Group provides educational services in the People’s Republic of China (the “PRC”) primarily under the “New Oriental” brand. The Group offers a wide range of educational programs, services and products, consisting primarily of K-12 after-school tutoring (“K-12 AST”), test preparation and other courses, primary and secondary school education, online education, content development and distribution, overseas study consulting services, pre-school education and study tour.

The Group’s business has been directly operated by the VIEs and its subsidiaries. The VIEs contributed an aggregate of 98.0% and 99.9% of the consolidated net revenues for the three months ended August 31, 2019 and 2020, respectively. The Company’s operations not conducted through contractual arrangements with the VIEs primarily consist of the lease of its commercial property. As of May 31, 2020 and August 31, 2020, the VIEs accounted for an aggregate of 74.0% and 73.3%, respectively, of the consolidated total assets, and 94.0% and 90.4%, respectively, of the consolidated total liabilities. The assets not associated with the VIEs primarily consist of cash and cash equivalents, prepaid expenses, short-term investments and long-term investments.

The following balances and amounts of the VIEs were included in the accompanying unaudited interim condensed consolidated financial statements after the elimination of intercompany balances and transactions among the offshore companies, its wholly foreign owned subsidiaries in China (the “WFOEs”) and the VIEs in the Group:

	As of May 31, 2020	As of August 31, 2020
	US\$	US\$
Total current assets	2,385,315	2,769,463
Total non-current assets	2,463,751	2,599,881
Total assets	4,849,066	5,369,344
Total current liabilities	2,395,977	2,705,948
Total non-current liabilities	1,066,541	1,073,192
Total liabilities	<u>3,462,518</u>	<u>3,779,140</u>

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

	For the three months ended	
	August 31,	
	2019	2020
	US\$	US\$
Net revenues	1,050,685	985,793
Net income	244,240	227,788
Net cash provided by operating activities	505,198	470,022
Net cash used in investing activities	(565,152)	(412,995)
Net cash used in financing activities	—	(458)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”). Significant accounting policies followed by the Group in the preparation of the accompanying unaudited interim condensed consolidated financial statements are summarized below.

The accompanying unaudited interim condensed consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for the consolidated financial statements. Certain information and note disclosures normally included in the Group’s annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted consistent with such rules and regulations. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair statement of the Group’s financial position as of August 31, 2020 and results of operation and cash flows for the three months ended August 31, 2019 and 2020. The consolidated balance sheet as of May 31, 2020 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by U.S. GAAP. The unaudited interim condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the unaudited interim condensed consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal years. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related footnotes for the years ended May 31, 2018, 2019 and 2020. Results for the three months ended August 31, 2020 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

Basis of consolidation

The unaudited interim condensed consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIEs and the VIEs’ subsidiaries and schools. The Company and its WFOEs have

entered into contractual arrangements with the VIEs and VIEs' shareholders, which enable the Company to (1) have power to direct activities that most significantly affect the economic performance of the VIEs, and (2) receive the economic benefits of the VIEs that could be significant to the VIEs. Accordingly, the Company is considered the primary beneficiary of the VIEs and has consolidated the VIEs' financial results of operation, assets and liabilities in the Company's unaudited interim condensed consolidated financial statements. All inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of the unaudited interim condensed 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, related disclosures of contingent liabilities at the balance sheet date, and revenues and expenses in the unaudited interim condensed consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group's unaudited interim condensed consolidated financial statements include, but not limited to, the purchase price allocation relating to business acquisitions, the valuation allowance for deferred tax assets, economic lives and impairment of property and equipment and intangible assets, impairment of goodwill, long-lived assets and long-term investments, fair value assessment of long-term investments, refund liability, allowance for credit losses and discount rate for leases. Actual results could differ from those estimates.

Short-term investments

The Group's short-term held-to-maturity investments are classified as short-term investments on the unaudited interim condensed consolidated balance sheet based on their contractual maturity dates which are less than one year and are stated at their amortized costs.

The short-term investments are recorded at fair market value with fair value change gains or losses recorded in other income, net in the unaudited interim condensed consolidated statements of operation. As of May 31, 2020 and August 31, 2020, US\$24,995 and US\$38,714 of accrued interest receivable balances were recorded in prepaid expenses and other current assets.

Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13 "Financial Instruments-Credit Losses (Topic 326)", which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. The Company adopted the new standard effective June 1, 2020 on a modified retrospective basis. The cumulative impact of adopting Topic 326 on the beginning retained earnings as of June 1, 2020 and on the Company's operating results for the three months ended August 31, 2020 is immaterial.

Long-term investments, net

The Group's long-term investments include equity securities without readily determinable fair values, equity securities with readily determinable fair values, equity method investments and available-for-sale investments.

- **Equity securities with readily determinable fair values**

Equity securities with readily determinable fair values are measured at fair value and any changes in fair value are recognized in the unaudited interim condensed consolidated statements of operation.

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

In accordance with ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, equity securities without readily determinable fair values investments are measured at cost, less impairment, plus or minus observable price changes of an identical or similar investment of the same issuer with the fair value change recorded in the unaudited interim condensed consolidated statements of operation.

The Group reviews its equity securities without readily determinable fair values 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 ASC Topic 820, Fair Value Measurements and Disclosures. 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 the fair value in the unaudited interim condensed consolidated statements of operation.

- **Equity method investments**

Investee companies over which the Group has the ability to exercise significant influence, but does not have a controlling interest through investment in common shares or in-substance common shares, are accounted for 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%, and 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. For certain investments in limited partnerships, where the Group holds less than a 20% equity or voting interest, the Group may also have significant influence.

Under the equity method, the Group initially records its investment at cost and subsequently recognizes the Group's proportionate share of each equity investee's net income or loss after the date

of investment into the unaudited interim condensed consolidated statements of operation and accordingly adjusts the carrying amount of the investment.

The Group reviews its equity method investments for impairment whenever an event or circumstance indicates that an other-than-temporary impairment has occurred. The Group considers available quantitative and qualitative evidence in evaluating potential impairment of its equity method investments. An impairment charge is recorded when the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary. For the three months ended August 31, 2019 and 2020, the Group did not record any impairment related to its equity method investments.

- **Available-for-sale investments**

For investments in investees' shares which are determined to be debt securities, the Group accounts for them as available-for-sale investments when they are not classified as either trading or held-to-maturity investments. Available-for-sale investments are reported at fair value, with unrealized losses, net of tax, attributable to credit losses recorded in the unaudited interim condensed consolidated statements of operation and unrealized gains and losses, net of tax, attributable to other non-credit factors recorded through the unaudited interim condensed consolidated statements of comprehensive income.

Unsecured senior notes

Unsecured senior notes are recognized initially at fair value, net of debt discounts or premiums and debt issuance costs. Debt discounts or premium and debt issuance costs are recorded as a reduction of the principal amount and the related accretion is recorded as interest expense in the unaudited interim condensed consolidated statements of operation over the maturities of the notes using the effective interest method.

Value added tax ("VAT")

Pursuant to the PRC tax laws, in case of any product sales, generally the VAT rate is 3% of the gross sales for small scale VAT payer and 16% (or 13% starting April 1, 2019) of the gross sales for general VAT payer. Most of the Company's PRC subsidiaries, the VIEs, the VIEs' subsidiaries and schools are considered as general VAT payers for the sales of guidance materials and the intercompany sales of self-developed software. For general VAT payers, VAT on gross sales is calculated at 16% (or 13% starting April 1, 2019) and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is recorded as accrued expenses in the unaudited interim condensed consolidated balance sheet.

The new enrollment system development services and other operating services are subject to VAT at the rate of 6% of the gross sales. The non-academic educational programs and services in short-term training schools may choose the applicable simple VAT collection method and apply for a 3% VAT rate. The intercompany sales

of self-developed software are subject to VAT at the rate of 13% and the part in excess of the rate of 3% the Group can apply for refund upon collection by relevant tax authorities. The intercompany services related to self-developed software are subject to VAT at the rate of 6%. The sales of books are subject to VAT at the rate of 9% since April 1, 2019.

Since January 2020, in accordance with Cai Shui [2020] No.8, due to the Novel coronavirus (“COVID-19”) pandemic, the VAT on certain services was temporarily exempted for the calendar year 2020.

Revenue recognition

Revenue is 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 ASC Topic 606 Revenue from contracts with Customers: (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 through educational programs and services with individual students in the PRC. In addition, the Group generates revenues from other services and the sales of books, which were insignificant for the three months ended August 31, 2019 and 2020. The Group’s revenues are reported net of VAT and surcharges.

The primary sources of the Group’s revenues are as follows:

(a) Educational programs and services

The educational programs and services consist of K-12 AST, test preparation and other courses, pre-school education, primary and secondary school education and online education. Each contract of educational programs and services is accounted for as a single performance obligation which is satisfied proportionately over the service period. Tuition fee is generally collected in advance and is initially recorded as deferred revenue. Refunds are provided to students if they decide within the trial period that they no longer want to take the course. After the trial period, if a student withdraws from a class, usually only those unearned portion of the fee is available to be returned.

The Group recognizes revenues from the educational programs and services proportionately when the services are delivered. In the three months ended August 31, 2019 and 2020, US\$949,730 and US\$875,395 of revenues related to educational programs and services was derived from K-12 AST, test preparation and other courses, and the remaining amount was derived from other segments.

(b) Books and other services

Other service revenues are primarily derived from consulting services to students regarding overseas studies and study tours. Revenues are recognized when promised services are delivered to the Group's customers in an amount of consideration to which the Group expects to be entitled to in exchange for those services. Each contract includes certain milestones and each of the milestones is considered a single performance obligation which is satisfied at the point of time when each of the milestone is reached. The Group estimates the variable consideration to be earned and recognizes revenues related to each milestone when the related milestone is achieved. The Group sells books or other educational materials developed or licensed by the Group either through its own distribution channels or through third party distributors. Revenues are recognized when control of the promised goods is transferred to the customer, in an amount that reflects the consideration the Group expects to be entitled to in exchange for the goods. All revenues of books and other services were derived from other segments.

The Group's contract liabilities consist of prepayments from customers (deferred revenue), with a balance of US\$1,324,384 and US\$1,563,138 as of May 31, 2020 and August 31, 2020, respectively. Substantially all of the deferred revenue was recognized as over revenues the next 12 months, and the remainder thereafter. The difference between the opening and closing balances of the Group's contract liabilities primarily results from the timing difference between the Group's satisfaction of performance obligation and the customer's payment.

Refund liability mainly related to the estimated refunds that are expected to be provided to students if they decide that they no longer want to take the courses. Refund liability estimates are based on historical refund ratio on a portfolio basis using the expected value method. As of May 31, 2020 and August 31, 2020, refund liability amounting to US\$94,006 and US\$110,663, respectively, are included in accrued expenses and other current liabilities.

Operating leases

On June 1, 2019, the Group adopted the new leasing standard, ASC 842, Leases, using the modified retrospective transition approach. 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 operating lease liabilities, initially measured at the present value of the lease payments. 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 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. The Group accounts for the lease and non-lease components separately. Lastly, the Company also has elected to utilize the short-term lease recognition exemption and, for those leases that qualified, the Group did not recognize 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 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. Lease terms 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 terms.

Foreign currency risk

Renminbi (“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 other 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 Group’s cash and cash equivalents, restricted cash, and term deposits denominated in RMB amounted to US\$855,654 and US\$903,190 as of May 31, 2020 and August 31, 2020, respectively.

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 valuing the asset or liability. Authoritative literature provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the hierarchy within which the fair value measurement in its entirety falls is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

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

Level 2

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

Level 3

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

Fair value of financial instruments

The Group's financial instruments consist primarily of cash and cash equivalents, restricted cash, term deposits, short-term investments, accounts receivable, amounts due from/to related parties, available-for-sale investments, equity security with/without readily determinable fair values, accounts payable, long-term loan and unsecured senior notes. The Group carries its available-for-sale investments and equity securities with readily determinable fair values at fair value and carries equity securities without readily determinable fair values at cost, less impairment, plus or minus observable price changes in a similar transaction. The carrying amounts of the long-term loan and unsecured senior notes approximate fair value as its interest rates are at the same level of current market yield for comparable debts. The carrying amounts of other financial instruments approximate their fair values due to the short-term maturities of these instruments.

Net income per share

Basic net income per share is computed by dividing net income attributable to the holders of common shares by the weighted average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. Common share equivalents are excluded from the computation of the diluted net income per share in periods when their effect would be anti-dilutive. The Group has share options and NES which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted net income per share, the effect of the share options and NES is computed using the treasury stock method.

Income taxes

The Group accounts for income taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities, net of operating loss carry forward and credits, by applying enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in the unaudited interim condensed consolidated statements of operation in the period of change. Deferred tax assets are reduced by a valuation allowance when it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Group accounts for uncertain tax positions by reporting a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Tax benefits are recognized from uncertain tax positions when the Group believes that it is more likely than not that the tax position will be

sustained on examination by the tax authorities based on the technical merits of the position. The Group recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expenses.

Comprehensive income

Comprehensive income includes net income, unrealized gain or loss on available-for-sale investments, net of tax, and foreign currency translation adjustment. Comprehensive income is reported in the unaudited interim condensed consolidated statements of comprehensive income.

Share-based compensation

Share-based payments to employees and directors are measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expenses net of forfeitures on a straight-line basis over the requisite service period, with a corresponding addition to the additional paid-in capital. The Group uses the binomial option pricing model to measure the fair value of options granted, and the quoted market price of the common shares or the fair value of underlying ordinary shares of Koolearn Holding before its initial public offering (“IPO”) by using the discounted cash flow method, to measure the fair value of options and NES granted to employees at each measurement date. The binomial option pricing model is adopted because the Group believes that considering the possibility of exercise an option over the life of the option, as affected by the reality of changing stock prices and non-constant risk free rates, would better reflect the measurement objective of relevant accounting literature.

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. Forfeitures are recognized as they occur.

Concentration of credit risk

Financial instruments that potentially expose the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, term deposits, restricted cash, short-term investments and accounts receivable. As of August 31, 2020, substantially all of the Group’s cash and cash equivalents, term deposits, restricted cash and short-term investments were deposited with financial institutions with high-credit ratings and quality. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The Group performs periodic credit evaluations and provides an allowance for doubtful accounts/credit losses to reduce the accounts receivable balance to its net realizable value. The Group has developed a current expected credit loss model based on historical experience, the age of the accounts receivable balances, credit quality of its customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers upon adoption of Topic 326. The Group did not have any customers constituting 10% or more of the consolidated net revenues and accounts receivable during the three months ended August 31, 2019 and 2020, respectively.

Recent accounting pronouncements adopted

In June 2016, 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. This ASU affects 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 right to receive cash. For public business entities, this ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt 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). On April 25, 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 adopted the new standard beginning June 1, 2020 using the modified retrospective transition approach. The impact of adopting the new standard was not material to the unaudited interim condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value”. 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 adopted the new standard beginning June 1, 2020 and the impact of adopting the new standard was not material to its unaudited interim condensed 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. The amendments in this ASU are effective with fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Group adopted the new

standard beginning June 1, 2020 and the impact of adopting the new standard was not material to its unaudited interim condensed consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

In January 2020, the FASB issued ASU 2020-01, Investments — Equity Securities (Topic 321), Investments — Equity Method and Joint Ventures (Topic 323), which clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments — Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period, for periods for which financial statements have not yet been issued. The Group is currently evaluating the impact of this update on its consolidated financial statements.

3. SHORT-TERM INVESTMENTS

Short-term investments consisted of the following:

	As of May 31, 2020	As of August 31, 2020
	US\$	US\$
Held-to-maturity investments	<u>2,318,280</u>	<u>2,778,408</u>

Short-term investments mainly consist of various financial products purchased from Chinese banks and trusts and are classified as held-to-maturity investments as the Group has the positive intent and ability to hold the investments to maturity. They are classified as short-term investments on the unaudited interim condensed consolidated balance sheet as their contractual maturity dates are equal to or less than one year.

4. LONG-TERM INVESTMENTS, NET

Long-term investments, net, consisted of the following:

	As of May 31, 2020	As of August 31, 2020
	US\$	US\$
Equity securities with readily determinable fair values (a)	27,696	29,131
Equity securities without readily determinable fair values (b)	50,083	52,056
Equity method investments (c)	151,507	146,084
Available-for-sale investments (d)	201,815	207,485
	<u>431,101</u>	<u>434,756</u>

- (a) As of August 31, 2020, equity securities with readily determinable fair values included US\$22,427 invested in shares of Sunlands Online Education Group, US\$5,044 invested in shares of Beijing Shengtong Printing Co., Ltd. and US\$1,660 invested in shares of Tarena International, Inc.. The Group recorded the fair value loss of US\$11,282 and the fair value gain of US\$1,246 related to the equity investments with readily determinable fair values for the three months ended August 31, 2019 and 2020, respectively.
- (b) The Group holds 19 investments in third-party private companies and has no ability to exercise significant influence over the investees, which were accounted for using the measurement alternative when there is no readily determinable fair value for the investments. The Group recorded US\$1,460 and nil impairment loss on equity securities without readily determinable fair values investment for the three months ended August 31, 2019 and 2020, respectively.
- (c) The Group holds equity interests in 17 third-party companies through investments in their common shares or in-substance common shares. The majority of the long-term investments are engaged in the business of providing educational services. The Group accounts for these investments under the equity method because the Group has the ability to exercise significant influence but does not have control over the investees, even though the Group holds less than 20% equity interests in some of the investees. The Group recorded equity share of losses of US\$803 and US\$3,167 for equity method investments for the three months ended August 31, 2019, and 2020, respectively, which was included in “Loss from equity method investments” in the unaudited interim condensed consolidated statements of operation.
- (d) The Group holds preferred shares in several third-party companies that by their terms either must be redeemed by the investee or are redeemable at the option of the investor. Those investments are considered debt securities and are therefore classified as available-for-sale investments according to ASC 320.10.25.1(b). The Group recorded unrealized gain of US\$163 and US\$45 from available-for-sale investments for the three months ended August 31, 2019 and 2020, respectively.

5. FAIR VALUE MEASUREMENTAssets and liabilities measured at fair value on a recurring basis

The Group measures available-for-sale investments and equity securities with readily determinable fair values at fair value on a recurring basis. The available-for-sale investments recorded in long-term investments include redeemable preferred shares, convertible note and special assets management plan-Guotai Yuanxin & New Oriental (“Assets Management Plan”). The equity securities with readily determinable fair values were common shares of three listed companies.

As of May 31, 2020 and August 31, 2020, information about inputs for the fair value measurements of the Group's assets that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

<u>Description</u>	As of May 31, 2020			<u>Total</u>
	Quoted Prices in	Significant Other	Significant	
	Active Market for	Observable	Unobservable	
	Identical Assets	Inputs	Inputs	
	Level 1	Level 2	Level 3	
	US\$	US\$	US\$	US\$

Long-term investments:

Equity securities with readily determinable fair values	27,696	—	—	27,696
Available-for-sale investments	—	41,889	159,926	201,815

<u>Description</u>	As of August 31, 2020			<u>Total</u>
	Quoted Prices in	Significant Other	Significant	
	Active Market for	Observable	Unobservable	
	Identical Assets	Inputs	Inputs	
	Level 1	Level 2	Level 3	
	US\$	US\$	US\$	US\$

Long-term investments:

Equity securities with readily determinable fair values	29,131	—	—	29,131
Available-for-sale investments	—	43,332	164,153	207,485

The Company measured the fair value of its investments in common shares using the market approach based on the quoted stock price of its investees in the active market and has classified it as level 1 measurement.

The Company measured the fair value of its investment in convertible note and Assets Management Plan based on the respective principal and expected returns and has classified those as level 2 measurement.

For redeemable preferred shares that do not have a quoted market rate, the Company measured their fair value based on recent transactions or based on the market approach or income approach when no recent transactions are available. Recent transactions include the purchase price agreed by an independent third party for a similar investment and have been classified as level 2 measurement. When no recent transactions are available, a market approach or income approach will be 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, discount of lack of marketability, investee's time to initial public offering as well as related volatility. The income approach takes into consideration a number of factors including management projection of discounted future cash flow of

the investee as well as an appropriate discount rate. 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 August 31, 2020, the fair values of available-for-sale investments classified as level 3 were measured using the market and income approaches with significant unobservable inputs were based on the following assumptions: (1) expected volatility ranging from 49.1% to 60.8%, (2) discount rates ranging from 16.71% to 20.79%, and (3) expected life ranging from 2.3 to 4.3 years. The Group did not have any transfers of level 3 assets and nil of unrealized gain or loss recorded for the three months ended August 31, 2020.

Assets and liabilities measured at fair value on a nonrecurring basis

Goodwill and acquired intangible assets are measured at fair value on a non-recurring basis when an impairment is recognized.

The Group measures goodwill at fair value annually or whenever events or changes in circumstances indicate that the carrying amount of a reporting unit exceeds its fair value. The fair value of goodwill is determined using discounted cash flows, and an impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. The Group measures acquired intangible assets using the 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 loss related to goodwill and acquired intangible assets for the three months ended August 31, 2019 and 2020.

The Group measures long-term investments (excluding the equity securities with readily determinable fair values and available-for-sale investments) at fair value on a nonrecurring basis only if an impairment or observable price adjustment is recognized in the current period.

For equity securities without readily determinable fair values, the fair value was determined using directly or indirectly observable inputs in the market place (Level 2 inputs). Whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable, the fair value of aforementioned long-term investments was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management projection of discounted future cash flow and the discount rate.

6. LEASE

The Group has operating leases for learning centers, service centers and office spaces. Certain leases include renewal options and/or termination options, which are factored into the Group's determination of lease payments when appropriate.

	As of May 31, 2020	As of August 31, 2020
	US\$	US\$
ROU assets	1,425,466	1,487,164
Operating lease liabilities - current	384,239	411,608
Operating lease liabilities - non-current	1,077,923	1,091,258
Total operating lease liabilities	1,462,162	1,502,866
Weighted average remaining lease term	4.7	4.7
Weighted average discount rate	4.2%	4.2%

Supplemental cash flow information related to the operating leases is as follows:

	For the three month ended August 31, 2019	For the three month ended August 31, 2020
	US\$	US\$
Operating lease cost	89,341	106,875
Short-term lease cost	3,485	2,110
Total	92,826	108,985
Cash paid for operating leases	96,860	101,859
ROU assets obtained in exchange for the new operating lease liabilities	47,493	154,317

A summary of maturity analysis of the annual undiscounted cash flows for the operating lease liabilities as of August 31, 2020 is as follows:

	As of August 31, 2020
	US\$
Fiscal year ending	
Remainder of 2021	335,961
2022	396,057
2023	328,276
2024	250,914
2025	153,887
Thereafter	186,321
Total future lease payments	1,651,416
Imputed interest	(148,550)
Present value of operating lease liabilities	<u>1,502,866</u>

As of August 31, 2020, the Group has lease contracts that have been entered into but not yet commenced amounting to \$17,668, and substantial of these contracts will commence during next 12 months.

7. UNSECURED SENIOR NOTES

In July 2020, the Company issued unsecured senior notes for a principal amount of US\$300,000 which are listed in The Stock Exchange of Hong Kong Limited. The notes bear fixed interest rate at 2.125% with interest payable semiannually in arrears on January 2 and July 2 of each calendar year, commencing on January 2, 2021.

A summary of the unsecured senior notes as of August 31, 2020 is as follows:

	As of August 31, 2020	Effective interest rate
	US\$	
Carrying amount of US\$300,000, 2.125% notes due 2025	298,226	2.35%
Unamortized debt discounts, accrued interest expenses and debt issuance costs	1,774	
Total principal amount of the unsecured senior notes	<u>300,000</u>	

The unsecured senior notes were issued at a discount amount at US\$299,181. The debt issuance costs of US\$2,098 were presented as a direct deduction from the principal amount of the unsecured senior notes in the unaudited interim condensed consolidated balance sheet. The effective interest rates for the unsecured senior notes include the interest charged on the notes as well as amortization of the debt discounts and debt issuance costs.

The unsecured senior notes contain covenants including, among others, negative pledge, consolidation, merger and sale all or substantially all of the Company's assets. The notes will rank senior in rights of payment to all of the Company's existing and future obligations expressly subordinated in rights of payment to the notes and rank at least equal in rights of payment with all of the Company's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law).

As of August 31, 2020, the principal of the unsecured senior notes of US\$300,000 will be due and repayable between four to five years in 2025.

8. SHARE-BASED COMPENSATION

NES

The Company adopted 2016 Share Incentive Plan in January 2016 to provide incentives to employees and directors ("2016 Share Incentive Plan"). During the three months ended August 31, 2020, 261,634 treasury stock has been issued to employees and directors upon the vesting of their NES. As of August 31, 2020, 5,445,818 common shares out of 17,000,000 common shares held by the depositary bank had been issued to employees and directors upon the vesting of their NES, and 3,941,257 shares out of 6,198,349 treasury stock had been reissued to employees and directors upon the vesting of their NES.

The NES activities under the 2016 Share Incentive Plan for the three months ended August 31, 2019 and 2020 are summarized as follows:

	<u>Number of NES</u>	<u>Weighted- average grant date fair value and intrinsic value</u>
		US\$
NES outstanding as of June 1, 2019	1,908,900	66.89
Vested	(579,366)	69.83
Forfeited	(87,956)	63.27
NES outstanding as of August 31, 2019	<u>1,241,578</u>	65.77
NES expected to vest as of August 31, 2019	<u><u>1,241,578</u></u>	

	Number of NES	Weighted- average grant date fair value and intrinsic value
		US\$
NES outstanding as of June 1, 2020	1,256,505	70.73
Vested	(570,635)	77.37
Forfeited	(20,392)	69.84
NES outstanding as of August 31, 2020	665,478	65.04
NES expected to vest as of August 31, 2020	665,478	

The total fair value of NES vested during the three months ended August 31, 2019 and 2020 were US\$40,459 and US\$44,150, respectively. As of August 31, 2020, the total unrecognized compensation expenses for NES of US\$13,218 are expected to be recognized over a weighted average period of 0.79 year.

The total compensation expenses are recognized on a straight-line basis over the respective vesting periods. The Group recorded the related compensation expenses of US\$8,594 and US\$5,762 for the three months ended August 31, 2019 and 2020, respectively.

Koolearn Pre-IPO Share Option Scheme

On July 13, 2018, the board of directors of Koolearn Holding approved an employee's share option plan (the "Pre-IPO Share Option Scheme"). The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time must not exceed 47,836,985 (representing approximately 5.23% of the total number of shares in issue immediately before the date of the commencement of dealings in the shares on the Stock Exchange without taking into account any shares that may be issued upon the Listing and any over-allotment option).

On March 7, 2019, pursuant to the list of grantees and respective numbers of options approved by the board of directors of Koolearn Holding, Koolearn Holding granted a total of 47,836,985 options to 144 grantees, including the directors, senior management of Koolearn Holding and other employees of the Group. The exercise period is 6 years from the listing date of Koolearn Holding and the exercise price is US\$1.13.

APPENDIX IA

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

The movements of share options under the Pre-IPO Share Option Scheme for the three months ended August 31, 2019 and 2020 are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Outstanding as of June 1, 2019	44,740,485	1.13
Exercised	(270,000)	1.13
Forfeited	—	1.13
Outstanding as of August 31, 2019	<u>44,470,485</u>	1.13
	Number of share options	Weighted average exercise price per option (US\$)
Outstanding as of June 1, 2020	39,251,485	1.13
Exercised	(501,000)	1.13
Forfeited	(365,000)	1.13
Outstanding as of August 31, 2020	<u>38,385,485</u>	1.13

The grant date fair value of the option is US\$0.52 and the estimated fair value of the share options granted was US\$21,613 on March 7, 2019.

The Group used the discounted cash flow method to determine the fair value of underlying ordinary shares of Koolearn Holding with the assistance of an independent valuation specialist. Based on the fair value of the underlying ordinary shares of Koolearn Holding, the Group used the binomial option-pricing model to determine the fair value of the share option as of the grant date. Option valuation model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying shares, and changes in the subjective input assumptions can materially affect the fair value estimate of share options.

	March 7, 2019 Pre-IPO Share Option Scheme
Weighted average share price	US\$ 1.19
Exercise price	US\$ 1.13
Expected volatility	46.8%
Expected life	6 years
Risk-free rate	2.49%
Expected dividend yield	0.00%

Koolearn Holding recorded the related compensation expenses of US\$2,426 and US\$1,026 for the three months ended August 31, 2019 and 2020, respectively, in relation to the share options issued under the Pre-IPO Share Option Scheme.

Koolearn Post-IPO Share Option Scheme

On January 30, 2019, the board of directors of Koolearn Holding approved an employee's share option plan (the "Post-IPO Share Option Scheme"). On January 29, 2020, pursuant to the list of grantees and respective numbers of options approved by the board of directors of Koolearn Holding, Koolearn Holding granted a total of 40,000,000 options to 552 grantees. On August 25, 2020, Koolearn Holding further granted 25,000,000 options to 162 employees with exercise price of US\$4.39, and the related compensation expenses was immaterial for the three months ended August 31, 2020.

Koolearn Holding recognized the total expenses of US\$9,045 for the three months ended August 31, 2020 in relation to the Post-IPO Share Option Scheme.

9. INCOME TAXES

Significant components of provision for income taxes for the three months ended August 31, 2019 and 2020 were as follows:

	For the three months ended August 31,	
	2019	2020
	US\$	US\$
Current:		
PRC	<u>52,670</u>	<u>43,584</u>
Deferred:		
PRC	<u>(1,834)</u>	<u>15,538</u>
Total provision for income taxes	<u><u>50,836</u></u>	<u><u>59,122</u></u>

APPENDIX IA

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Group's deferred tax assets and liabilities were as follows:

	As of May 31, 2020	As of August 31, 2020
	US\$	US\$
Deferred tax assets		
Allowance for doubtful accounts/credit losses	4,677	3,001
Accrued expenses	55,172	42,113
Net operating loss carried-forward	43,049	57,884
Tax impact from the long term investments disposed to a related party	1,521	1,521
Total deferred tax assets	104,419	104,519
Valuation allowance	(41,095)	(55,434)
Total deferred tax assets, net	63,324	49,085
Deferred tax liabilities		
Acquired assets	3,598	3,619
Tax impact from the unrealized gain on available-for-sale investments	8,308	9,729
Total deferred tax liabilities	11,906	13,348

The Group does not file combined or consolidated tax returns, therefore, losses from individual subsidiaries or the VIEs may not be used to offset other subsidiaries' earnings within the Group.

The Group determined the valuation allowance on an entity by entity basis. The valuation allowance, which is primarily related to entities with net operating loss carried-forward for which the Company does not believe it will ultimately be realized, was US\$41,095 and US\$55,434 as of May 31, 2020 and August 31, 2020, respectively.

As of August 31, 2020, the Group had net operating loss carried-forward of US\$387,186 from the Company's PRC subsidiaries, the VIEs, the VIEs' subsidiaries and schools which will expire on various dates from May 31, 2021 to May 31, 2025.

If the WFOE and certain subsidiaries and schools of the VIEs did not enjoy income tax exemptions and preferential tax rates for the three months ended August 31, 2019 and 2020, the increase in income tax expenses and the decrease in net income per share amounts would be as follows:

	For the three months ended August 31,	
	2019	2020
	US\$	US\$
Increase in income tax expenses	17,895	17,131
Decrease in net income per share—basic	0.11	0.11
Decrease in net income per share—diluted	0.11	0.11

Aggregate undistributed earnings of the Company's PRC subsidiaries and the VIEs that are available for distribution were US\$2,279,550 and US\$2,490,995 as of May 31, 2020 and August 31, 2020, respectively. Upon distribution of such earnings, the Company will be subject to the PRC EIT, the amount of which is impractical to estimate. The Company did not record any withholding tax on any of the aforementioned undistributed earnings because the relevant subsidiaries and the VIEs do not intend to declare dividends and the Company intends to permanently reinvest it within the PRC. Additionally, no deferred tax liabilities were recorded for taxable temporary differences attributable to the undistributed earnings of VIEs because the Company believes the undistributed earnings can be distributed in a manner that would not be subject to income tax.

The Group did not identify any significant unrecognized tax benefits for the three months ended August 31, 2019 and 2020. The Group did not incur any significant interest and penalties related to potential underpaid income tax expenses and also does not anticipate any significant increases or decreases in unrecognized tax benefits in the next nine months. The Group has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future periods.

According to the PRC Tax Administration and Collection Law, the tax authority may require the taxpayer or the withholding agent to make delinquent tax payment within three years if the underpayment of taxes is resulted from the tax authority's act or error. No late payment surcharge will be assessed under such circumstances. The statute of limitation will be three years if the underpayment of taxes is due to the computational errors made by the taxpayer or the withholding agent. Late payment surcharge will be assessed in such case. The statute of limitation will be extended to five years under special circumstances which are not clearly defined (but an underpayment of tax liability exceeding US\$16 (RMB0.1 million) is specifically listed as a "special circumstance"). The statute of limitation for transfer pricing related issue is ten years. There is no statute of limitation in the case of tax evasion. In accordance with the above PRC tax administration laws, tax (calendar) years from 2016 to 2020 of the Group's PRC subsidiaries, VIEs and VIEs' subsidiaries, remain subject to tax audits as of August 31, 2020, at the tax authority's discretion.

10. NET INCOME PER SHARE

The computation of basic and diluted net income per common share for the three months ended August 31, 2019 and 2020 was as follows:

	For the three months ended	
	August 31,	
	2019	2020
	US\$	US\$
Numerator:		
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders	208,990	174,652
Net income available for future distribution	208,990	174,652
Denominator		
Weighted average common shares outstanding-basic	158,246,454	158,930,841
Plus: incremental weighted average common shares from assumed vesting of NES using the treasury stock method	1,421,115	838,794
Weighted average common shares outstanding-diluted	159,667,569	159,769,635
Net income per common share		
- Basic	1.32	1.10
- Diluted	1.31	1.09

There was no employee share options included from the dilutive share calculation for the three months ended August 31, 2019 and 2020 due to anti-dilutive effects.

11. RELATED-PARTIES TRANSACTIONS

The Group had the following balances and transactions with related parties:

(a) Balances:

	Notes	Relationship	Amounts due from related parties, current		Amounts due to related parties, current	
			As of May 31,	As of August 31,	As of May 31,	As of August 31,
			2020	2020	2020	2020
			US\$	US\$	US\$	US\$
VM EDU Fund I, LP ("EDU Fund")	(1)	Equity method investee	—	24,318	—	—
Metropolis Holding China Limited ("Metropolis")	(2)	Company controlled by Mr. Michael Minhong Yu ("Mr. Yu")	1,951	2,012	159	173
EEO Education Technology Co., Ltd. ("EEO")		Equity securities without readily determinable fair values investee	—	—	1,257	1,606
Beijing MaxEn International Education Consulting Company Limited ("MaxEn") . . .	(3)	Equity method investee	—	2,921	—	—
Others	(5)	Long-term investees	1,433	69	174	38
Total			<u>3,384</u>	<u>29,320</u>	<u>1,590</u>	<u>1,817</u>

	Notes	Relationship	Amounts due from related parties, non-current	
			As of May 31,	As of August 31,
			2020	2020
			US\$	US\$
Metropolis	(2)	Company controlled by Mr. Yu	1,550	1,564
Beijing Dianshi Jingwei Technology Co., Ltd ("Dianshi Jingwei")	(4)	Equity method investee	21,024	20,443
Others	(5)	Long-term investees	135	988
Total			<u>22,709</u>	<u>22,995</u>

APPENDIX IA
**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

(b) Transactions:

	Notes	Relationship	Rental expenses	
			For the three months ended August 31,	
			2019	2020
			US\$	US\$
Metropolis	(2)	Company controlled by Mr. Yu	<u>1,853</u>	<u>2,813</u>

	Notes	Relationship	Loans provided to related parties	
			For the three months ended August 31,	
			2019	2020
			US\$	US\$
Dianshi Jingwei	(4)	Equity method investee	7,199	—
MaxEn	(3)	Equity method investee	—	<u>2,854</u>
Total			<u>7,199</u>	<u>2,854</u>

	Notes	Relationship	Revenues	
			For the three months ended August 31,	
			2019	2020
			US\$	US\$
Beijing Fishpond Software Technology Co., Ltd.		Equity method investee	154	48
Others	(6)	Long-term investees	<u>14</u>	<u>46</u>
Total			<u>168</u>	<u>94</u>

	Notes	Relationship	Cost	
			For the three months ended August 31,	
			2019	2020
			US\$	US\$
		Equity securities without readily determinable fair values		
EEO		investee	1,184	1,241
Beijing Dongfang Heli Investment and Development Ltd		Equity method investee	—	455
Others	(6)	Long-term investees	<u>100</u>	<u>10</u>
Total			<u>1,284</u>	<u>1,706</u>

- (1) In June 2019, EDU Fund, a market-driven investment entity, was established with total committed capital of US\$100,000. In June 2020, new limited partners invested in the fund along with which US\$24,318 was oversubscribed by the Group and was recorded as amount due from related party as of August 31, 2020. The amount was subsequently settled in October 2020.

- (2) Since April 2010, the Group began renting a large portion of a building owned by Metropolis for office space. In March 2012, Metropolis was acquired by a company wholly-owned by Mr. Yu, the Group's executive chairman. As a result, Metropolis became a related party of the Group. As of August 31, 2020, the current and non-current amounts due from Metropolis were US\$2,012 and US\$1,564, respectively, which represented prepaid rent related to a short-term lease and deposit for the office space. The amount of the rental payments was determined based on the prevailing market rates and was duly approved by the Group's board of directors.
- (3) In March 2012, MaxEn was established as a joint venture of the Company. As of August 31, 2020, amounts due from MaxEn was a loan provided by the Company with annual interest rate of 3.8% and an outstanding balance of US\$2,921. The original period of this loan was 1 year.
- (4) In April 2016, the Group sold 51% equity interest of its fully-owned subsidiary, Dianshi Jingwei, through which Dianshi Jingwei became an equity method investee of the Group. As of August 31, 2020, amounts due from Dianshi Jingwei included five outstanding loans provided by the Group with annual interest rate of 10%. The loans were initially granted in 2018 but were extended several times and recorded as non-current assets as of August 31, 2020. During the three months ended of August 31, 2020, no interests were received by the Group. The extended loans were personally guaranteed by Mr. Yu and Mr. Yunhai Jia ("Mr. Jia"), the chief executive officer of Dianshi Jingwei.

According to the loan agreements, if Dianshi Jingwei defaults on the loan payments and interests, the Group has the right to convert the unpaid loans into Dianshi Jingwei's equity interest.

- (5) As of May 31, 2020 and August 31, 2020, the balance in "others" included the receivables from and payables to long-term investees.
- (6) As of May 31, 2020 and August 31, 2020, the balance in "others" included the revenue and cost from long-term investees.

12. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of August 31, 2020, the future minimum capital commitments were as follows:

	US\$
Capital commitment for the purchase of property and equipment	4,610
Capital commitment for leasehold improvements	14,001

Long-term debt obligations

The Group's long-term debt obligations are unsecured senior notes. The amounts include the corresponding interest payable. The expected repayment schedule of the unsecured senior notes have been disclosed in Note 7.

Contingent liabilities

The Group has been named in a number of lawsuits arising in its ordinary course of business. Although the outcome of those lawsuits are uncertain, the Group does not believe the possibility of loss is probable. The Group is unable to estimate a range of loss, if any, that could result if there would be an adverse decision, as such, and the Group has not accrued any liabilities.

13. SEGMENT INFORMATION

The Group's chief operating decision maker has been identified as the Chief Executive Officer who reviews financial information of operating segments based on U.S. GAAP amounts when making decisions about allocating resources and assessing performance of the Group. The Group identified seven operating segments, including K-12 AST, test preparation and other courses (formerly known as language training and test preparation courses), primary and secondary school education, online education, content development and distribution, overseas study consulting services, pre-school education and study tour, for the three months ended August 31, 2019 and 2020. K-12 AST, test preparation and other courses, previously referred as language training and test preparation, has been identified as a reportable segment. Online education, content development and distribution, overseas study consulting services, pre-school education, primary and secondary school education and study tour operating segments were aggregated as others because individually they do not exceed the 10% quantitative threshold.

The Group primarily operates 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 revenue, operating cost and expenses, and operating income. Net revenues, operating cost and expenses, operating income, and total assets by segment were as follows:

For the three months ended August 31, 2019

	K-12 AST, test preparation and other courses	Others	Consolidated
	US\$	US\$	US\$
Net revenues	949,730	122,047	1,071,777
Operating cost and expenses:			
Cost of revenues	365,627	74,602	440,229
Selling and marketing	57,325	38,166	95,491
General and administrative	189,281	40,436	229,717
Unallocated corporate expenses	—	—	60,144
Total operating cost and expenses	612,233	153,204	825,581
Operating income (loss)	337,497	(31,157)	246,196
Segment assets	3,182,514	1,198,860	4,381,374
Unallocated corporate assets	—	—	1,686,861
Total assets	3,182,514	1,198,860	6,068,235

APPENDIX IA

**UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE-MONTH
PERIOD ENDED AUGUST 31, 2020**

For the three months ended August 31, 2020

	K-12 AST, test preparation and other courses	Others	Consolidated
	US\$	US\$	US\$
Net revenues	875,395	110,971	986,366
Operating cost and expenses:			
Cost of revenues	387,404	77,462	464,866
Selling and marketing	62,606	54,046	116,652
General and administrative	156,557	46,927	203,484
Unallocated corporate expenses	—	—	51,059
Total operating cost and expenses	606,567	178,435	836,061
Operating income (loss)	268,828	(67,464)	150,305
Segment assets	3,847,696	1,518,060	5,365,756
Unallocated corporate assets	—	—	1,963,509
Total assets	3,847,696	1,518,060	7,329,265

14. SUBSEQUENT EVENTS

COVID-19 has spread rapidly to many parts of China and other parts of the world in the first quarter of calendar year 2020. The epidemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and facilities in China and elsewhere. Substantially all of the Group's revenue and workforce are concentrated in China. Consequently, the COVID-19 outbreak may continue affect the Group's business operation and its financial condition and operating results in the future periods of fiscal year 2021, including but not limited to negative impact to the Group's total revenues, fair value adjustments or impairment to the Group's long term investments.

On September 8, 2020, Koolearn Holding entered into a subscription agreement with the Company and another subscriber, pursuant to which the Company and the another subscriber conditionally agreed to subscribe for, and Koolearn Holding has conditionally agreed to allot and issue 51,680,000 and 7,752,000 new shares, respectively, at the subscription price of US\$ 3.87 per subscription share (corresponding to approximately HK\$30.00 per subscription share), for an aggregate subscription amount of US\$230 million (corresponding to approximately HK\$1,783 million).

The following information does not form part of the accountants' report on the historical financial information of the Group for the years ended May 31, 2018, 2019 and 2020 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the Reporting Accountants of the Company, as set out in Appendix I to this prospectus (the "Accountants' Report"), and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus, the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company prepared in accordance with paragraph 4.29 of the Listing Rules is set out below to illustrate the effect of the proposed global offering of the Company (the "Global Offering") on the audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 as if the Global Offering had taken place on that day.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company, had the Global Offering been completed as at May 31, 2020 or any future dates following the Global Offering.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company is prepared based on the audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 as derived from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	Audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of May 31, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of May 31, 2020	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS
	US\$'000 (Note 1)	US\$'000 (Note 2)	US\$'000	US\$ (Note 3)	US\$ (Note 4)	HK\$ (Note 5)	HK\$ (Note 5)
Based on the indicative Offer Price of HK\$1,399.00 per Offer Share	2,642,683	1,511,934	4,154,617	24.87	24.87	192.75	192.75

Notes:

1. The audited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 is derived from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 of US\$2,733,295,000 with adjustments for goodwill and intangible assets attributable to the ordinary shareholders of the Company of US\$80,366,000 and US\$10,246,000, respectively.
2. The estimated net proceeds from the Global Offering are based on 8,510,000 new Shares to be issued at the indicative Offer Price of HK\$1,399.00 per new Share after deduction of the estimated listing and share issue costs (including underwriting fees and other related expenses) expected to be incurred by the Group subsequent to May 31, 2020 and does not take into account of any allotment and issuance of any Shares upon the exercise of the over-allotment option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or vesting of the non-vested equity shares ("NES") under the 2016 Share Incentive Plan or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company. For the purpose of calculating the estimated net proceeds from the Global Offering, the translation of Hong Kong dollars into US\$ was made at the exchange rate of US\$1.00 to HK\$7.7500, which is obtained from the exchange rate of Hong Kong dollars and U.S. Dollars on October 16, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that Hong Kong dollars have been, would have been or may be converted to US\$, or vice versa, at that rate or at any other rates or at all.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share as at May 31, 2020 is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 167,050,080 Shares were in issue assuming that the Global Offering had been completed on May 31, 2020 without taking into account any allotment and issuance of any Shares upon the exercise of the over-allotment option, the Shares to be issued pursuant to the Share Incentive Plan, including pursuant to the exercise of options or the vesting of the NES under the 2016 Share Incentive Plan or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares and/or ADSs by the Company.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents one Share.
5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company per Share/ADS is converted from US\$ into Hong Kong dollars at the exchange rate of US\$1.00 to HK\$7.7500, which is obtained from the exchange rate of Hong Kong dollars and U.S. Dollars on October 16, 2020 set forth in the H.10 statistical release of the Federal Reserve Board as disclosed in the Exchange Rate Conversion section of the Prospectus. No representation is made that the US\$ have been, would have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
6. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as at May 31, 2020 to reflect any trading results or other transactions of the Group entered into subsequent to May 31, 2020.

B. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of New Oriental Education & Technology Group Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of New Oriental Education & Technology Group Inc. (the "Company"), its subsidiaries, its variable interest entities (the "VIEs") and the VIEs' subsidiaries and schools (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at May 31, 2020 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated October 29, 2020 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed global offering (the "Global Offering") on the Group's financial position as at May 31, 2020 as if the Global Offering had taken place at May 31, 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended May 31, 2020, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at May 31, 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether

the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
October 29, 2020

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was first incorporated in the British Virgin Islands on August 18, 2004, and subsequently redomiciled to and continued in the Cayman Islands as an exempted company with limited liability on March 16, 2006 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “Memorandum”) and its Amended and Restated Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted, and that the Company shall have full power and authority to carry out any object not prohibited by the Companies Law, or any other law of the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.
- (c) The share capital of the Company is US\$3,000,000 divided into 300,000,000 shares, with a par value of US\$0.01 each.

2. ARTICLES OF ASSOCIATION

The Articles were adopted by special resolution passed on August 25, 2006 and effective immediately upon commencement of the trading of the Company’s American Depositary Shares representing its Common Shares on the New York Stock Exchange, Inc. and currently in effect. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of common shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless

otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of two-thirds of the issued shares of that class, or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class. To every such general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be one person holding or representing by proxy at least one-third of the issued shares of that class. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum;
or
- (iv) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so canceled.

The Company may reduce its share capital or any capital redemption reserve in any way by special resolution.

(iv) *Transfer of shares*

Subject to the Articles, all transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the New York Stock Exchange, Inc. (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in

respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, after notice has been given by advertisement in an appointed newspaper or any other newspapers or by electronic means for fourteen (14) days, or by any other means in accordance with the requirements of the Stock Exchange to that effect be suspended at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

(v) ***Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange and/or any competent regulatory authority.

(vi) ***Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any money unpaid on their shares, and each member shall (subject to receiving at least 14 days notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on his shares. A call shall be deemed to have been made at the time when the resolution of the Directors authorizing such call was passed. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at the rate of eight percent per annum from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate (not exceeding without the sanction of an ordinary resolution, eight percent. per annum) as may be agreed upon between the Member paying the sum in advance and the Directors.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve at least fourteen (14) days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, but his liability shall cease if and when the Company receives payment in full of the fully paid up amount of the shares.

(b) **Directors**

(i) *Appointment, retirement and removal*

The Articles provide that (A) unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than three Directors. The Directors shall be elected or appointed in the first place by the subscribers to the Memorandum or by a majority of them and thereafter by the Members at general meeting; (B) each Director shall hold office until the expiration of his term and until his successor shall have been elected and qualified; (C) the Board of Directors shall have a Chairman of the Board of Directors (the "Chairman")

elected and appointed by a majority of the Directors then in office. The Directors may also elect a Vice-Chairman of the Board of Directors (the “Vice-Chairman”). The Chairman shall preside as chairman at every meeting of the Board of Directors. To the extent the Chairman is not present at a meeting of the Board of Directors, the Vice-Chairman, or in his absence, the attending Directors may choose one Director to be the chairman of the meeting. The Chairman’s voting right as to the matters to be decided by the Board of Directors shall be the same as other Directors; (D) subject to the Articles and the Companies Law, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board or as an addition to the existing Board; (E) notwithstanding the foregoing, the Directors by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting shall have the power from time to time and at any time to appoint any person as a Director to fill a casual vacancy on the Board or as an addition to the existing Board.

The Articles provide that, subject to other provisions in the Articles, a Director may be removed from office by ordinary resolution at any time before the expiration of his term notwithstanding anything in the Articles or in any agreement between the Company and such Director (but without prejudice to any claim for damages under such agreement).

The Articles provide that a vacancy on the Board created by the removal of a Director under the relevant provisions in the Articles may be filled by the election or appointment by ordinary resolution at the meeting at which such Director is removed or by the affirmative vote of a simple majority of the remaining Directors present and voting at a Board meeting.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he is found to be or becomes of unsound mind;
- (cc) without special leave of absence from the board, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office be vacated;
- (dd) he becomes bankrupt or makes any arrangement or compositions with his creditors;
- (ee) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and

upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) ***Power to allot and issue shares***

Subject to the provisions, if any, in that behalf in the Memorandum and to any direction that may be given by the Company in a general meeting, the Directors may allot, issue, grant options over or otherwise dispose of shares of the Company (including fractions of a share) with or without preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper. The Company shall not issue shares in bearer form.

(iii) ***Power to dispose of the assets of the Company or any of its subsidiaries***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) ***Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) ***Remuneration***

The Directors may receive such remuneration as the Board may from time to time determine. The Directors are also entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint

managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms (as to remuneration and otherwise) as the board may determine. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged and he may vote on any such appointment or arrangement.

(c) **Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall not have a second or casting vote. A Director may at any time summon a meeting of the Directors by at least two days' notice in writing to every other Director and alternate Director.

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be a majority in number, of the Directors then serving on the Board, provided that a Director and his appointed alternate Director shall be considered only one person for this purpose. A meeting of the Directors at which a quorum is present when the meeting proceeds to business shall be competent to exercise all powers and discretions for the time being exercisable by the Directors. A meeting of the Directors may be held by means of telephone or teleconferencing or any other telecommunications facility provided that all participants are thereby able to communicate immediately by voice with all other participants.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than two-thirds of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution (a) passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles; or (b) approved in writing by all of the Members entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the members of the Company and the effective date of the resolution so adopted shall be the date on which the instrument, or the last of such instruments if more than one, is executed.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share registered in his name in the register of members but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of hands, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman of the meeting or any member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) entitled to vote and who hold at least 10 per cent of the paid up voting share capital of the Company, and unless a poll is so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book of the proceedings of the Company, shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favor of, or against, that resolution.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company 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 shall be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that clearing house (or its nominee(s)) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorization.

(iii) ***Annual general meetings and extraordinary general meetings***

The Company shall, if required by the Companies Law, in each year hold a general meeting as its annual general meeting and shall specify the meeting as such in the notices calling it.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than 33% of the share capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. If the Directors do not within twenty-one days from the date of the deposit of the requisition duly proceed to convene a general meeting to be held within a further twenty-one days, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a general meeting but any meeting so convened shall not be held after the expiration of three months after the expiration of the second said twenty one days.

(iv) ***Notices of meetings and business to be conducted***

At least seven business days' notice shall be given for any general meeting.

The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

(v) ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be at least two shareholders which hold an aggregate of at least one-third of the voting share capital, present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote.

(vi) ***Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(f) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have

any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

The Directors may appoint an Auditor of the Company who shall hold office until removed from office by a resolution of the Directors and may fix his or their remuneration.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

Subject to any rights and restrictions for the time being attached to any class or classes of shares and the Articles, the Directors may from time to time declare dividends (including interim dividends) and other distribution on shares in issue and authorize payment of the same out of funds of the Company lawfully available therefor, and the Company by ordinary resolution may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide that the Directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors be applicable for meeting contingencies, or for equalizing dividends or for any other purpose to which those funds be properly applied and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments (other than shares of the Company) as the Directors may from time to time think fit. No dividends shall be paid otherwise than out of the profits of the Company or, subject to the restrictions of the Companies Law, the share premium account.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid on a share in advance of calls shall for this purpose be treated as paid up on the share.

The Directors when paying dividends to the Members in accordance with the Articles may make such payment either in cash or in specie.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his

address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the person to whom it is sent or to the order of such other person as the member or person entitled, or such joint holders as the case may be, may direct.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors, and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by law or authorized by the Directors or by the Company by ordinary resolution.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be an ordinary resolution.

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:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be 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* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the sanction of an ordinary resolution, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) **Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is continued and registered in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) **Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) **Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred

to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the

date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as canceled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The 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 the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) **Taxation**

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

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

The undertaking for the Company is for a period of twenty years from April 11, 2006.

The Cayman Islands currently levy 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. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) **Stamp duty on transfers**

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.

(l) **Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) **Inspection of corporate records**

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or

where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands (“**ES Law**”) that came into force on January 1, 2019, a “relevant entity” is required to satisfy the economic substance test set out in the ES Law. A “relevant entity” includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in “Documents available for inspection” in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT US

Our incorporation

Our Company was incorporated in the British Virgin Islands on August 18, 2004 and subsequently redomiciled to and continued in the Cayman Islands on March 16, 2006 as an exempted company under the laws of the Cayman Islands. We have registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance with an address at Room 4, 1/F, 7 Silverstrand Beach Road, Clearwater Bay, Hong Kong. Mr. Chong Lang Kan has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong.

As we were continued and registered in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in “Summary of our Constitution of and Cayman Companies Law” in Appendix III.

Changes in our share capital

As at the Latest Practicable Date, we had an authorized share capital of US\$3,000,000, divided into 300,000,000 Shares of par value US\$0.01 per Share, and a total of 160,379,387 Shares were issued.

The following tables set out the changes in the outstanding share capital of our Company during the periods presented in this document, which excludes bulk Shares issued for the purpose of the Share Incentive Plans:

	Fiscal year ended May 31, 2018	
	Shares	Shareholders' Equity
		(US\$)
Balance as at June 1, 2017	157,687,444	1,584
Issuance of Shares	632,466	—
Repurchase and retirement of Shares	—	—
Balance as at May 31, 2018	<u>158,319,910</u>	<u>1,584</u>

	Fiscal year ended May 31, 2019	
	Shares	Shareholders' Equity
		(US\$)
Balance as at June 1, 2018	158,319,910	1,584
Issuance of Shares	481,804	4
Repurchase and retirement of Shares	(952,000)	—
Balance as at May 31, 2019	<u>157,849,714</u>	<u>1,588</u>

	Fiscal year ended May 31, 2020	
	Shares	Shareholders' Equity
		(US\$)
Balance as at June 1, 2019	157,849,714	1,588
Issuance of Shares	690,366	—
Repurchase and retirement of Shares	—	—
Balance as at May 31, 2020	<u>158,540,080</u>	<u>1,588</u>

Changes in the share capital of our Significant Subsidiaries

Our subsidiary, Koolearn, is primary listed on the Hong Kong Stock Exchange under the stock code “1797.” For information on Koolearn’s share capital changes: (a) since its listing on March 28, 2019, please see the monthly returns of Koolearn; and (b) before its listing, please see Koolearn’s prospectus of March 15, 2019, both of which are available on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and Koolearn (www.koolearn.hk).

On May 6, 2019, December 9, 2019, March 4, 2020, and May 21, 2020, our subsidiary, Dexin Dongfang, increased its registered capital from RMB10,000,000 by RMB40,000,000, RMB150,000,000, RMB40,000,000 and RMB60,000,000, respectively.

Aside from Koolearn and Dexin Dongfang, there are no other Significant Subsidiaries with share capital changes within the two years immediately preceding the date of this document.

For information on our Company’s share incentive plans, see “Directors and Senior Management — Compensation.”

FURTHER INFORMATION ABOUT OUR BUSINESS

Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this document and are or may be material:

- (a) a supplemental agreement dated October 10, 2019, entered into among: (i) Beijing Dexin Dongfang Network Technology Co., Ltd. (北京德信東方網絡科技有限公司, “**Dexin Dongfang**”), (ii) New Oriental Education & Technology Group Co., Ltd. (新東方教育科技集團有限公司), Linzhi Tencent Technology Co., Ltd. (林芝騰訊科技有限公司), Tianjin Xuncheng Yiyue Technology Partnership (L.P.) (天津迅程壹月科技合夥企業(有限合夥)), Tianjin Xuncheng Luyue Technology Partnership (L.P.) (天津迅程陸月科技合夥企業(有限合夥)), Tianjin Xuncheng Bayue Technology Partnership (L.P.) (天津迅程捌月科技合夥企業(有限合夥)), Tianjin Xuncheng Jiuyue Technology Partnership (L.P.) (天津迅程玖月科技合夥企業(有限合夥)), Tianjin Xuncheng Shiyue Technology Partnership

(L.P.) (天津迅程拾月科技合夥企業(有限合夥)), Tianjin Xuncheng Shieryue Technology Partnership (L.P.) (天津迅程拾貳月科技合夥企業(有限合夥)) and Tianjin Xuncheng Shisanyue Technology Partnership (L.P.) (天津迅程拾叁月科技合夥企業(有限合夥)), (collectively, the “**Beijing Xuncheng VIE Equity Holders**”), (iii) Beijing New Oriental Xuncheng Network Technology Inc. (北京新東方迅程網絡科技股份有限公司, “**Beijing Xuncheng**”) (together with entities invested and controlled by Xuncheng (including controlled by way of contractual arrangements), being Beijing Kuxue Huisi Network Technology Co., Ltd. (北京酷學慧思網絡科技有限公司) and Beijing Dongfang Youbo Network Technology Co., Ltd. (北京東方優播網絡科技有限公司), and (iv) Zhuhai Chongsheng Heli Network Technology Co., Ltd. (珠海崇勝合力網絡科技有限公司) (“**Zhuhai Chongsheng**”), pursuant to which Zhuhai Chongsheng joined as a party to documents (a) to (e) of the Koolearn VIE Documents (defined below in “— Summary of the Koolearn VIE Documents”) and assumed the same rights and shared the same obligations as Dexin Dongfang under those documents.

- (b) the Hong Kong Underwriting Agreement.

Summary of the New Oriental VIE Documents

As described in “History — Contractual Arrangements”, our Company has adopted two sets of contractual arrangements, one set with New Oriental China, and another set with Beijing Xuncheng, both of which are comparable in structure and have the same effect of allowing us to receive the economic benefits from the operations of the variable interest entities and their subsidiaries, and allow the financial results of the variable interest entities and their subsidiaries to be consolidated into the financial statements of our Company.

We set out the contractual arrangements with New Oriental China below. For further details of the contractual arrangements with New Oriental China, please see copies of the contractual arrangements, which are published on our website (<http://investor.neworiental.org/>).

Contractual arrangements with New Oriental China

- (a) the equity pledge agreement dated April 23, 2012 and its supplemental agreements dated September 19, 2014 and February 16, 2017 entered into among New Oriental Education & Technology Group Co., Ltd. (新東方教育科技集團有限公司) (formerly known as Beijing New Oriental Education & Technology (Group) Co., Ltd. (北京新東方教育科技(集團)有限公司), “**New Oriental China**”), Beijing Century Friendship Education Investment Co., Ltd. (北京世紀友好教育投資有限公司, “**Century Friendship**”) and Beijing Hewstone Technology Co., Ltd. (北京硯石高科技有限公司, “**Beijing Hewstone**”), pursuant to which Century Friendship pledged 10% of its equity interest in New Oriental China in favor of Beijing Hewstone as security for the performance of the obligations of Century Friendship, New Oriental China and its affiliates under the series of agreements entered into by Beijing Hewstone with New Oriental China and its affiliates respectively.
- (b) the equity pledge agreement dated April 23, 2012 and its supplemental agreements dated September 19, 2014 and February 16, 2017 entered into among New Oriental China, Century

Friendship and Beijing Decision Education & Consulting Co., Ltd. (北京鼎事興教育諮詢有限公司, “**Beijing Decision**”), pursuant to which Century Friendship pledged 43% of its equity interest in New Oriental China in favor of Beijing Decision as security for the performance of the obligations of Century Friendship, New Oriental China and its affiliates under the series of agreements entered into by Beijing Decision with New Oriental China and its affiliates respectively.

- (c) the equity pledge agreement dated April 23, 2012 and its supplemental agreements dated September 19, 2014 and February 16, 2017 entered into among New Oriental China, Century Friendship and Beijing Pioneer Technology Co., Ltd. (北京開拓鴻業高科技有限公司, “**Beijing Pioneer**”), pursuant to which Century Friendship pledged 19% of its equity interest in New Oriental China in favor of Beijing Pioneer as security for the performance of the obligations of Century Friendship, New Oriental China and its affiliates under the series of agreements entered into by Beijing Pioneer with New Oriental China and its affiliates respectively.
- (d) the equity pledge agreement dated April 23, 2012 and its supplemental agreements dated September 19, 2014 and February 16, 2017 entered into among New Oriental China, Century Friendship and Beijing Smart Wood Software Technology Co., Ltd. (北京智愚嘉業軟件科技有限公司, “**Beijing Smart Wood**”), pursuant to which Century Friendship pledged 28% of its equity interest in New Oriental China to Beijing Smart Wood as security for the performance of the obligations of Century Friendship, New Oriental China and its affiliates under the series of agreements entered into by Beijing Smart Wood with New Oriental China and its affiliates respectively.
- (e) the exclusive call option agreement dated February 16, 2017 entered into among New Oriental China, Century Friendship and Beijing Decision, pursuant to which Century Friendship granted to Beijing Decision (for itself or its designated third party) an exclusive and irrevocable call option to purchase from it all or part of the equity interests in New Oriental China when and to the extent that applicable PRC law permits it to own, for a consideration that is the minimum amount permitted under the laws and regulations of the PRC.
- (f) the proxy agreement and power of attorney dated December 3, 2012 entered into among Beijing Pioneer, Century Friendship and New Oriental China, pursuant to which Century Friendship agreed to, among other things, irrevocably nominate, appoint and constitute Beijing Pioneer (or its substitute(s)) as its attorney-in-fact to exercise on its behalf any and all rights that it has in respect of its equity interests in New Oriental China conferred by relevant laws and regulations and the articles of association of New Oriental China.
- (g) the master exclusive service agreement dated September 19, 2014, its Amendment No. 1 dated January 28, 2016 and Amendment No. 2 dated February 16, 2017 entered into between Beijing Pioneer and New Oriental China, pursuant to which New Oriental China and its schools and subsidiaries agreed to engage Beijing Pioneer as the exclusive service provider of technical and business support services in return for service fees, and pursuant to which Beijing Pioneer designated and appointed Beijing Hewstone, Beijing Decision, Beijing Smart Wood, Beijing Right Time

Technology Co., Ltd. (北京頤順太和軟件科技有限公司), Beijing Joy Tend Technology Co., Ltd. (北京悅壇軟件科技有限公司), Beijing Magnificence Technology Co., Ltd. (北京博鴻軟件科技有限公司) and Beijing Top Technology Co., Ltd. (北京新鼎峰軟件科技有限公司) and their respective subsidiaries as additional service providers to provide the technical and business support services to New Oriental China and its schools and subsidiaries.

Summary of the Koolearn VIE Documents

We set out the contractual arrangements and key ancillary documents with respect to Beijing Xuncheng below. For further details of the contractual arrangements with Beijing Xuncheng, please see copies of the contractual arrangements, which are published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk), Koolearn (www.koolearn.hk) and our website (<http://investor.neworiental.org/>).

Contractual arrangements with Beijing Xuncheng

- (a) an exclusive management consultancy and cooperation agreement (獨家管理顧問及業務合作協議) dated May 10, 2018, entered into among Dexin Dongfang (as the “**Koolearn corresponding subsidiary**”), Beijing Xuncheng (as the “**Koolearn variable interest entity**”) and its subsidiaries (collectively, the “**Koolearn VIE group**”), and the Beijing Xuncheng VIE Equity Holders, pursuant to which the variable interest entity and the Beijing Xuncheng VIE Equity Holders agreed to engage the Koolearn corresponding subsidiary as the exclusive provider of enterprise management consultation, online education management consultation, intellectual property licenses, technical support and business support services for the VIE group.
- (b) an exclusive call option agreement (獨家購股權協議) dated May 10, 2018, entered into among the Koolearn corresponding subsidiary, the Beijing Xuncheng VIE Equity Holders, and the Koolearn variable interest entity, pursuant to which each of the Beijing Xuncheng VIE Equity Holders granted to the Koolearn corresponding subsidiary (for itself or its designated third party) an exclusive, unconditional and irrevocable call option to purchase from them all or part of the equity interests in the Koolearn variable interest entity.
- (c) an equity pledge agreement (股份質押協議) dated May 10, 2018, entered into among the Koolearn corresponding subsidiary, the Beijing Xuncheng VIE Equity Holders, and the Koolearn variable interest entity, pursuant to which the Beijing Xuncheng VIE Equity Holders unconditionally and irrevocably pledged all of their equity interests (including any increased equity interests and the related dividends and bonuses) in the Koolearn variable interest entity in favor of the Koolearn corresponding subsidiary.

Ancillary documents that support the contractual arrangements with Beijing Xuncheng

- (d) *Powers of attorney.* Powers of attorney (授權委託書) dated May 10, 2018 issued by each of the Beijing Xuncheng VIE Equity Holders and the Koolearn variable interest entity irrevocably

appointing the Koolearn corresponding subsidiary (or any person designated by it) as their attorney-in-fact to exercise on their behalf any and all rights they have in respect of their equity interests in the Koolearn variable interest entity and its current or future majority-owned subsidiaries, respectively.

- (e) *Letter of undertaking.* Letters of undertaking (承諾函) dated May 10, 2018 from Century Friendship and its shareholders, Mr. Michael Minhong Yu and Ms. Bamei Li, under which, they undertook not to enter into any arrangement in relation to Century Friendship’s equity interests in New Oriental China which may adversely affect the implementation of the Koolearn VIE Documents entered into by New Oriental China unless they have obtained consent from Koolearn or the Koolearn corresponding subsidiary. The general partner of each limited partnership that holds equity interest in Beijing Xuncheng executed a similar letter of undertaking as of May 10, 2018 to the same effect.
- (f) *Acceptance letter.* A letter of acceptance dated October 10, 2019 from Beijing Dongfang Youbo Network Technology Co., Ltd. (“**Dongfang Youbo**”), under which, Dongfang Youbo assumed the same rights and obligations as the Koolearn variable interest entity’s other subsidiary under the exclusive management consultancy and cooperation agreement described at (a) above.

Our intellectual property rights

Our trademarks, copyrights, trade secrets and other intellectual property rights distinguish our services and products from those of our competitors and contribute to our competitive advantage in our target markets. To protect our brand and other intellectual property, we rely on a combination of trademark, copyright and trade secrets laws as well as confidentiality agreements with our employees, contractors and others. As of May 31, 2020, we had many works of art copyrights and software copyrights in China relating to various aspects of our operations, and 16 main trademark registrations in China, of which “,” “,” and “,” have been recognized as “well-known trademarks” in civil action adjudicated and/or administrative determination in China. Our main websites are located at www.xdf.cn, www.neworiental.org and www.koolearn.com. In addition, we have registered other domain names, including dogwood.com.cn, blingabc.com, ileci.com, donut.cn, 51pigai.com and steamxdf.com.

FURTHER INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS

Disclosure of interests

See “Major Shareholders” for disclosure of interests of directors and executive officers.

Director service contracts and remuneration

We have entered into employment agreements with each of our executive officers. See “Directors and Senior Management — Compensation — Employment Agreements.”

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office by ordinary resolution or the unanimous written resolution of all shareholders.

We grant share-based awards to our independent directors under the Share Incentive Plans. See “Directors and Senior Management — Compensation — Share Incentive Plans”.

Disclosures relating to our directors and experts

Save as disclosed in this document:

- (a) none of our directors nor any of the persons listed in “— Other Information — Qualification of experts” below is materially interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this document, acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities, or are proposed to be acquired or disposed of by or leased to our subsidiaries and our consolidated affiliated entities.
- (b) none of our directors nor any of the persons listed in “— Other Information — Qualification of experts” below is materially interested in any contract or arrangement with us subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to our business as a whole.
- (c) none of the persons listed in “— Other Information — Qualification of experts” below has any shareholding in us or any of our Significant Subsidiaries or has the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in us or any of our Significant Subsidiaries.

OTHER INFORMATION**Estate duty**

Our directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

Litigation

See “Business — Legal and Administrative Proceedings” for further information.

Joint Sponsors

The Joint Sponsors have applied on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the

additional Shares that may be issued pursuant to the exercise of the Over-allotment Option), and the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options, the vesting of or vested but outstanding RSUs, or other awards that have been or may be granted from time to time. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

Credit Suisse (Hong Kong) Limited, Merrill Lynch Far East Limited and UBS Securities Hong Kong Limited satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

The sponsor fee payable to each of the Joint Sponsors is US\$500,000 and is payable by our Company.

No material adverse change

Our directors confirm that there has been no material adverse change in our financial or trading position since May 31, 2020 (being the date to which our latest audited consolidated financial statements were prepared).

Qualification of experts

The following are the qualifications of the experts (as defined under the Hong Kong Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this document:

Name	Qualification
Credit Suisse (Hong Kong) Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) of the regulated activities as defined under the SFO
Merrill Lynch Far East Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
UBS Securities Hong Kong Limited	A licensed corporation under the SFO for type 1 (dealing in securities), type 2 (dealing in futures contracts), type 6 (advising on corporate finance) and type 7 (providing automated trading services) of the regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants and Registered Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance (Cap. 588)
Tian Yuan Law Firm	Legal adviser to Company as to PRC law
Conyers Dill & Pearman	Legal adviser to Company as to Cayman Islands law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

Consents of experts

Each of the experts above has given and has not withdrawn its consent to the issue of this document with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

Preliminary Expenses

Our Company did not incur any material preliminary expenses.

Promoter

Our Company has no promoter for the purpose of the Hong Kong Listing Rules. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this document.

Binding effect

This document shall have the effect, if an application is made in pursuance of this document, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

Bilingual document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by Section 4 of the *Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice* (Chapter 32L of the Laws of Hong Kong).

Miscellaneous

Save as disclosed in this document, or otherwise waived or exempted from disclosure pursuant to the waivers and exemptions disclosed in this document (see “Waivers and Exemptions”), within the two years immediately preceding the date of this document:

- (a) to the best of our knowledge, neither we nor any of our Significant Subsidiaries (except for Koolearn) has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;

- (b) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (c) save for commissions paid to the joint bookrunners of the offering of our US\$300 million notes in July 2020, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share capital or debentures of our Company or any of our Significant Subsidiaries;
- (d) no founder, management or deferred Shares of our Company or any of our Significant Subsidiaries has been issued or agreed to be issued; and
- (e) there is no arrangement under which future dividends are waived or agreed to be waived.

Our branch register of members will be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Unless the directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by our share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.

Our directors confirm that:

- (a) there has not been any interruption in our business that may have or has had a material adverse effect on our financial position in the 12 months immediately preceding the date of this document; and
- (b) we and our Significant Subsidiaries have no outstanding debentures or convertible debt securities.

The English version of this document shall prevail over the Chinese version.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The following documents, among others, were delivered to the Registrar of Companies in Hong Kong for registration together with this document:

- (a) a copy of the **GREEN** Application Form;
- (b) a copy of each of the material contracts referred to in “Statutory and General Information — Further Information About Our Business — Summary of material contracts” in Appendix IV; and
- (c) the written consents referred to in “Statutory and General Information — Other Information — Consents of experts” in Appendix IV.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Skadden, Arps, Slate, Meagher & Flom and affiliates at 42nd Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours for 14 days from the date of this document (both dates inclusive):

- (a) the Memorandum and Articles of Association;
- (b) our audited consolidated financial statements for the three years ended May 31, 2020;
- (c) the Accountants’ Report and the report on the unaudited pro forma financial information from Deloitte Touche Tohmatsu, the texts of which are set out in Appendices I and II;
- (d) the legal opinion issued by our PRC Legal Adviser on certain aspects of our Group;
- (e) the letter of advice prepared by Conyers Dill & Pearman, our Cayman Islands legal adviser, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III;
- (f) the F&S Report, a summary of which is set out in “Industry”;
- (g) the material contracts referred to in “Statutory and General Information — Further Information About Our Business — Summary of material contracts” in Appendix IV;
- (h) the written consents referred to in “Statutory and General Information — Other Information — Consents of experts” in Appendix IV; and
- (i) the Cayman Companies Law.

