

New Oriental Education & Technology Group Inc.

Form 20-F

September 27, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended May 31, 2017.

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-32993

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

No. 6 Hai Dian Zhong Street

Haidian District, Beijing 100080

People's Republic of China

(Address of principal executive offices)

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Haidian District, Beijing 100080

People's Republic of China

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

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

Title of Each Class	Name of Exchange on Which Registered
American depositary shares, each representing one common share* Common shares, par value US\$0.01 per share**	New York Stock Exchange New York Stock Exchange

* Effective on August 18, 2011, the ratio of ADSs to our common shares was changed from one ADS representing four common shares to one ADS representing one common share.

** Not for trading, but only in connection with the listing on New York Stock Exchange of the American depositary shares.

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

None

(Title of Class)

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report. **157,687,444 common shares, par value US\$0.01 per share, as of May 31, 2017.**

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

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

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

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

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

Large accelerated filer
 Accelerated filer
 Non-accelerated filer
 Emerging growth company

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

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

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

U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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INTRODUCTION

Unless otherwise indicated and except where the context otherwise requires, references in this annual report on Form 20-F to:

we, us, our company or our refers to New Oriental Education & Technology Group Inc., its predecessor entities and subsidiaries and, in the context of describing our operations and consolidated financial data, also includes New Oriental China (as defined below);

China or PRC refers to People's Republic of China, and for the purpose of this annual report, excludes Taiwan, Hong Kong and Macau;

New Oriental China refers to New Oriental Education & Technology Group Co., Ltd, formerly known as Beijing New Oriental Education & Technology (Group) Co., Ltd., which is a domestic PRC company and our variable interest entity whose financial results are consolidated into our consolidated financial statements in accordance with U.S. GAAP;

student enrollments refers to the cumulative total number of courses enrolled in and paid for by our students, including multiple courses enrolled in and paid for by the same student but excluding courses offered at our primary and secondary schools;

shares or common shares refers to our common shares, par value US\$0.01 per share;

ADSs refers to our American depositary shares. Prior to August 18, 2011, each of our ADSs represented four common shares. On August 18, 2011, we effected a change in the ratio of our ADSs to common shares from one ADS representing four common shares to one ADS representing one common share. Except as otherwise noted, this change in our ADS to common share ratio has been retroactively reflected in this annual report on Form 20-F; and

RMB or Renminbi refers to the legal currency of China and \$, dollars, US\$ or U.S. dollars refers to currency of the United States. We refer to our teaching facilities in this annual report as either schools or learning centers, based primarily on a facility's functions. Generally, our schools consist of classrooms and administrative facilities with student and administrative services, while our learning centers consist primarily of classroom facilities. Each of our schools, including kindergartens, has received a Permit for Operating a Private School from the relevant local government authority.

Our financial statements are expressed in U.S. dollars, which is our reporting currency. Certain of our financial data in this annual report on Form 20-F is translated into U.S. dollars solely for the reader's convenience. Unless otherwise noted, all convenient translations from Renminbi to U.S. dollars in this annual report on Form 20-F were made at a rate of RMB6.8098 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on May 31, 2017. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be,

converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, at the rate stated above, or at all.

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Glossary of Major Admissions and Assessment Tests

ACT	American College Test (US)
BEC	Business English Certificate (US)
CET 4	College English Test Level 4 (PRC)
CET 6	College English Test Level 6 (PRC)
GMAT	Graduate Management Admission Test (US)
GRE	Graduate Record Examination (US)
IELTS	International English Language Testing System (Commonwealth countries)
LSAT	Law School Admission Test (US)
PETS	Public English Test System (PRC)
SAT	SAT College Entrance Test (US)
TOEFL	Test of English as a Foreign Language (US)
TOEIC	Test of English for International Communication (US)
TSE	Test of Spoken English (US)

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. These forward-looking statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as may, will, expect, is expected to, anticipate, aim, estimate, intend, plan, believe, is/are likely to or other similar expressions. We have based forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to:

our anticipated growth strategies;

our future business development, results of operations and financial condition;

expected changes in our revenues and certain cost and expense items;

our ability to increase student enrollments and course fees and expand program, service and product offerings;

competition in each type of educational program, service and product we provide;

risks associated with our offering of new educational programs, services and products and the expansion of our geographic reach;

the expected increase in expenditures on education in China; and

PRC laws, regulations and policies relating to private education and providers of private educational services. You should read thoroughly this annual report and the documents that we refer to herein with the understanding that our actual future results may be materially different from and/or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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The following tables present the selected consolidated financial data of our company. The selected consolidated statement of operations data for the fiscal years ended May 31, 2015, 2016 and 2017 and the consolidated balance sheet data as of May 31, 2016 and 2017 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statement of operations data for the fiscal years ended May 31, 2013 and 2014 and the selected consolidated balance sheet data as of May 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements for the fiscal years ended May 31, 2013, 2014 and 2015, which are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes included elsewhere in this annual report and Item 5 A. Operating and Financial Review and Prospects. Our audited consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP.

<i>(in thousands of US\$ except share, per share and per ADS data)</i>	For the Years Ended May 31,				
	2013	2014	2015	2016	2017
Consolidated Statement of Operations Data:					
Net revenues:					
Educational programs and services	857,685	1,006,198	1,102,974	1,309,339	1,608,954
Books and others	102,169	132,689	143,792	169,009	190,555
Total net revenues	959,854	1,138,887	1,246,766	1,478,348	1,799,509
Operating costs and expenses: ⁽¹⁾					
Cost of revenues	(384,177)	(451,669)	(526,320)	(614,364)	(749,586)
Selling and marketing	(142,098)	(169,062)	(188,483)	(197,897)	(232,826)
General and administrative	(311,014)	(324,210)	(378,434)	(471,010)	(554,948)
Total operating costs and expenses	(837,289)	(944,941)	(1,093,237)	(1,283,271)	(1,537,360)
Gain on disposal of subsidiaries		3,621		3,760	
Operating income	122,565	197,567	153,529	198,837	262,149
Other income, net:					
Interest income	30,121	44,880	66,605	66,861	61,445
Realized gain from long-term investments					7,086
Impairment loss from long-term investments					(2,338)
Miscellaneous income, net	772	752	342	1,586	2,367
Provision for income taxes:					
Current	(18,985)	(28,235)	(31,552)	(39,467)	(51,142)
Deferred	3,630	2,193	5,331	1,936	518

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Provision for income taxes	(15,355)	(26,042)	(26,221)	(37,531)	(50,624)
Loss from equity method investments	(1,427)	(1,453)	(1,537)	(4,425)	(3,289)
Loss from discontinued operations, net of tax	(407)				
Net income	136,269	215,704	192,718	225,328	276,796
Add: Net loss (gain) attributable to noncontrolling interests			295	(444)	(2,339)
Net income attributable to New Oriental Education & Technology Group Inc.	136,269	215,704	193,013	224,884	274,457
Net income from continuing operation per ADS attributable to shareholders of New Oriental Education & Technology Group Inc. ⁽²⁾					
Basic	0.88	1.38	1.23	1.43	1.74
Diluted	0.87	1.37	1.23	1.43	1.74

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<i>(in thousands of US\$ except share, per share and per ADS data)</i>	For the Years Ended May 31,				
	2013	2014	2015	2016	2017
Income (loss) from discontinued operation per ADS attributable to shareholders of New Oriental Education & Technology Group					
	(0.00)				
	(0.00)				
used in calculating basic net income per share	155,762,959	156,033,992	156,438,606	156,782,439	157,550,000
used in calculating diluted net income per share	157,823,792	157,903,464	157,302,174	157,391,686	157,980,000

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

<i>(in thousands of US\$)</i>	For the Years Ended May 31,				
	2013	2014	2015	2016	2017
General and administrative	27,242	20,079	15,689	16,810	20,287
Total	27,242	20,079	15,689	16,810	20,287

(2) Each ADS represents one common share.

(3) Historical financial statements were adjusted retrospectively to reflect the discontinued operations of Elite English in the year ended May 31, 2013.

The following table presents our selected consolidated balance sheet data as of May 31, 2013, 2014, 2015, 2016 and 2017:

<i>(in thousands of US\$)</i>	2013	2014	2015	2016	2017
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	417,166	371,593	531,298	709,209	641,018
Total assets	1,353,441	1,603,545	1,951,537	2,354,834	2,924,979
Total current liabilities	489,835	576,065	725,232	918,190	1,202,681
Total liabilities	496,189	577,787	727,693	920,172	1,204,901
Total New Oriental Education & Technology Group Inc. shareholders' equity	857,252	1,025,758	1,220,348	1,404,572	1,680,948
Noncontrolling interests			3,496	30,090	39,130
Total equity	857,252	1,025,758	1,223,844	1,434,662	1,720,078

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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.

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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 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 many different schools, learning centers and programs in different geographic locations. 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.

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 primary and middle school students, college students and other adults throughout many provinces and cities in 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 invested significantly in brand promotion initiatives. 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.

Our reputation 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 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 & Exchange Commission, or the SEC, and Muddy Waters LLC, an entity unrelated to us, 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. More recently, in late 2016, there was negative media coverage referencing our small overseas study consulting division, New Oriental Vision Overseas Consultancy Co. 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.

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 the trading price of our ADSs.

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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.

Our business could be materially and adversely affected by the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, Ebola or other epidemics. 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. Starting from March 2013, H7N9 bird flu, a new strain of animal influenza, has been spreading in China and has infected more than a hundred people. While the spread of the avian virus H7N9 has not materially affected our student enrollments as of the date of this annual report, any future outbreak of avian influenza, SARS, the influenza A (H1N1), H7N9 bird flu or other 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 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 77 as of May 31, 2017, and we increased the number of our learning centers in China from 111 as of May 31, 2006 to 855 as of May 31, 2017. 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 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.

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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. For example, in September 2010, we completed the acquisition of a 100% equity interest in Newave Education, a K-12 English language school in Shanghai. Due to the breach of contract by the seller of Newave Education, we submitted a request for arbitration to the China International Economic and Trade Arbitration Commission for full refund of the purchase consideration which we had paid. The case was closed in December 2011, and we received the full refund by the end of the fiscal year ended May 31, 2012.

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. 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, 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.

We have also 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 one 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.

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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 certain educational materials, such as books, software, CD-ROMs, magazines and other periodicals, to enrich our product offerings and meet students' needs. 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 and each geographic market in which we operate. For example, we face nationwide competition for our IELTS preparation courses from Global IELTS School, which offers IELTS preparation courses in many cities in China. We face regional competition for our English for children program from several competitors that focus on children's English training in specific regions. We face competition from companies that focus on providing international and/or PRC test preparation courses in specific geographic markets in China. We also face competition from companies that focus on providing after-school tutoring services, such as TAL Education Group.

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 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. In addition, the increasing use of the internet and advances in internet- and computer-related technologies, such as web video conferencing and online testing simulators, are eliminating geographic and cost-entry barriers to providing private educational services. As a result, many of our international competitors that offer online test preparation and language training courses may be able to more effectively penetrate the China market. Many of these international competitors have strong education brands, and students and parents in China may be attracted to the offerings of international competitors based in the country that the student wishes to study in or in which the selected language is widely spoken. Moreover, many smaller companies are able to use the internet to quickly and cost-effectively offer their programs, services and products to a large number of students with less capital expenditure than previously required. 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. As a result, our revenues and profitability may decrease. 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.

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Failure to adequately and promptly respond to changes in testing materials, admissions standards and technologies 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. For example, certain admissions and assessment tests in the United States now include an essay component, which required us to hire and train teachers to be able to analyze written essays that tend to be more subjective in nature and require a higher level of English proficiency. In addition, some admissions and assessment tests that were previously offered in paper format only are now offered in a computer-based testing format. These changes require us to continually update and enhance our test preparation materials and our teaching methods. Further, the Chinese Ministry of Education, or the MOE, promulgated new curriculum standards on December 28, 2011 for primary and secondary schools in China covering 19 subjects, including mathematics, Chinese and English. These new curriculum standards took effect in the fall semester of 2012, and we finished adapting our tutoring programs and materials to these changes in curriculum standards in July 2013. In September 2014, the government announced plans to change policies relating to the gaokao, or college entrance exam, that will change the format of English exam in the coming years. In December 2014, the MOE issued the Implementation Opinions on Scholastic Standard Test of Senior Secondary Schools and the Opinions on Strengthening and Improving the Comprehensive Aptitude Assessment of High School Students, both of which reform the policies relating to the college entrance exam, including but not limited to the subject, format and content of the exam. These policies will be implemented on a province-by-province basis and some provinces such as Beijing, Shanghai, Zhejiang have promulgated relevant regulations on reformation of the college entrance exam. On September 18, 2016, the MOE promulgated the Guidance Opinions on Further Promoting the Reform of Exams and Entrance System for High Schools 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, MOE promulgated new curriculum standards for the subject of science in primary schools, which took effect in the fall semester of 2017. We will adapt our tutoring programs and materials to new curriculum 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 test preparation courses and our business may be materially and adversely affected.

We provide preparation courses for both overseas and domestic admissions and assessment tests. The success of our test preparation courses 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 basing admissions decisions 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 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.

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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 test preparation courses and our business may be seriously harmed.

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, there is a recent trend that the short-term language training and test preparation markets are moving towards smaller class sizes, especially for students between the ages of 5 and 12. This may have resulted from discretionary income increases for families in China, which cause students to be more willing and able to pay higher course fees for the more individualized attention that smaller classes can offer. The average class size for our short-term language training and test preparation courses started to decrease since the fiscal year ended May 31, 2009. In our fiscal year ended May 31, 2017, the average class size was approximately nine students per class, compared to approximately 30 students per class for fiscal year ended May 31, 2009. 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 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 make irrelevant our existing offerings without increasing our total student enrollments. For example, our online courses may take away students from our existing classroom-based courses, and our new schools and learning centers may take away students 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 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 courses tend to have the largest student enrollments in our first fiscal quarter, which runs from June 1 to August 31 of each year, primarily because many students enroll in our courses during the summer school holidays to enhance their foreign language skills and/or prepare for admissions and assessment tests in subsequent school terms. In addition, we have generally experienced larger student enrollments in our third fiscal quarter, which runs from December 1 to February 28 of each year, primarily because many students enroll in our language training and other courses during the winter school holidays. 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, such as 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. We

expect quarterly fluctuations in our revenues and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our ADSs. As our revenues grow, these seasonal fluctuations may become more pronounced.

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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 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 ADSs. In addition, our past results may not be indicative of future performance because of new businesses developed or acquired by us.

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 launched many new services to expand our business and student base. For example, in January 2010, we established a small pilot program whereby we permit third parties in certain small cities to offer our Pop Kids English program and New Oriental Star kindergarten program under a brand name cooperation model. The cooperation facilities operated by such third parties are not included in the counts of our schools and learning centers, and student enrollments from these facilities are not included as our student enrollments. In October 2013, we terminated the brand name cooperation for New Oriental Star kindergarten program. As another example, in October 2015, we launched Baixuehui non-academic training program, which offers after-school tutoring courses in STEM (science, technology, engineering, and mathematics), sports, dancing, painting, music and arts for students from age 3 to 18. We cooperated with third parties for teaching content and teachers in such non-academic training areas. We had four Baixuehui learning centers in Beijing as of May 31, 2017.

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, 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.

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We generate a significant portion of our revenues from four 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 approximately 37.1% of our total net revenues for the fiscal year ended May 31, 2017 from our operations in Beijing, Shanghai, Xi'an and Wuhan, and we expect these four 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.

If we are not able to continually enhance our online programs, services and products 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 internet-based educational programs, services and products is characterized by rapid technological changes and innovation, unpredictable product life cycles and user preferences. We have limited experience with generating revenues from online programs, services and products, and their results are largely uncertain. The increasing adoption of computer-based testing formats for admissions testing may lead more students to seek online test preparation courses. We must quickly modify our programs, services and products to adapt to changing student needs and preferences, technological advances and evolving internet practices. 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. If our improvements to our online offerings 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 could have a material and adverse effect on the trading price of our ADSs.

We are subject to the reporting obligations under the U.S. securities laws. 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, 2017, 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 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.

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.

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Capacity constraints or system disruptions to our computer systems or websites 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. We cannot assure you that we will be able to timely expand our online program infrastructure to meet demand for such programs. 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 have built an off-site computer center which is able to restore service within several minutes following significant damage to our on-site computer center.

Our computer networks may also be vulnerable to unauthorized access, hacking, computer viruses and other security problems. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. Any interruption to our computer systems or operations could have a material adverse effect on our ability to retain students and increase student enrollments. Furthermore, we may be required to expend significant resources to protect against the threat of security breaches or to alleviate problems caused by these breaches.

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. 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. These factors could cause declines in the student enrollments for our test preparation and English language training courses and could have an adverse effect on our overall business and results of operations.

Risks Related to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with applicable PRC laws and regulations, we could be subject to severe penalties.

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 Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with New Oriental China, its Schools and Subsidiaries and its Shareholder.

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Tian Yuan Law Firm, our PRC legal counsel, is of the opinion that the corporate structure of New Oriental China and its schools and subsidiaries and our wholly-owned subsidiaries in China are in compliance with existing PRC laws and regulations; and 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 are valid, binding and enforceable under, and do not violate, PRC laws or regulations currently in effect. We have been advised by our PRC legal counsel, 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 counsel.

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, in January 2015, the Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law for public review and comments. Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company is considered a foreign-invested enterprise. Under the draft Foreign Investment Law, variable interest entities would also be deemed as foreign-invested enterprises if they are ultimately controlled by foreign investors, and be subject to restrictions on foreign investments. However, the draft law has not taken a position on what actions will be taken with respect to the existing companies with the variable interest entity structure, whether or not these companies are controlled by Chinese parties. It is uncertain when the draft would be signed into law and whether the final version would have any substantial changes from the draft. See "Risks Related to Doing Business in China" Substantial uncertainties exist with respect to the enactment timetable, final content, interpretation and implementation of draft PRC Foreign Investment Law published for public comments and how it may impact the viability of our current corporate structure, corporate governance and business operations.

We have been further advised by our PRC counsel that if we, any of our wholly-owned subsidiaries, New Oriental China or any of its schools or subsidiaries 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, New Oriental China or New Oriental China's schools and subsidiaries;

discontinuing or restricting the operations of any related-party transactions among our PRC subsidiaries and New Oriental China and its schools and subsidiaries;

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; or

restricting or prohibiting our use of the proceeds of our future offering to finance our business and operations in China.

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 New Oriental China and its schools and subsidiaries that most significantly impact their economic performance, and/or our failure to receive the economic benefits from New Oriental China and its schools and subsidiaries, we may not be able to consolidate New Oriental China and its schools and subsidiaries 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 wholly-owned subsidiaries in China or New Oriental China or its schools or subsidiaries.

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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 New Oriental China, its schools and subsidiaries and its shareholder to operate substantially all of our education business. These contractual arrangements may not be as effective in providing us with control over New Oriental China as direct ownership. From the legal perspective, if New Oriental China, any of its schools and subsidiaries or its shareholder 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, 2015, 2016 and 2017, our variable interest entity(ies) contributed in aggregate 97.9%, 97.7% and 98.8%, 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 New Oriental China and its schools and subsidiaries, and our ability to conduct our business may be negatively affected, and we may not be able to consolidate the financial results of New Oriental China and its schools and subsidiaries into our consolidated financial statements in accordance with U.S. GAAP.

Our ability to enforce the equity pledge agreements between us and New Oriental China's shareholder may be subject to limitations based on PRC laws and regulations.

Pursuant to the equity pledge agreements among New Oriental China, Century Friendship and five of our wholly-owned subsidiaries in China, Century Friendship, as New Oriental China's sole shareholder, agrees to pledge its equity interests in New Oriental China to our subsidiaries to secure New Oriental China's and its schools and subsidiaries' performance of their obligations under the relevant contractual arrangements. The equity pledges of Century Friendship under these equity pledge agreements have been registered with the relevant local branch of the State Administration for Industry and Commerce, or SAIC. According to the PRC Property Law and PRC Guarantee Law, the pledgee and the pledgor are prohibited from making an agreement prior to the expiration of the debt performance period to transfer the ownership of the pledged equity to the pledgee when the obligor fails to pay the debt due. However, under the PRC Property Law, when an obligor fails to pay its debt when due, the pledgee may choose to either conclude an agreement with the pledgor to obtain the pledged equity or seek payments from the proceeds of the auction or sell-off of the pledged equity. If New Oriental China or its shareholder fails to perform its obligations secured by the pledges under the equity pledge agreements, one remedy in the event of default under the agreements is to require the pledgor to sell the equity interests of New Oriental China in an auction or private sale and remit the proceeds to our wholly-owned 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 New Oriental China. 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 Beijing Decision Education & Consulting Co., Ltd., or Beijing Decision, which is one of our PRC wholly-owned subsidiaries and a party to the option agreement with New Oriental China's shareholder, to designate another PRC person or entity to replace the existing shareholder of New Oriental China pursuant to the direct transfer

option we have under the option agreement.

In addition, in the registration forms of the local branch of State Administration for Industry and Commerce for the pledges over the equity interests under the equity pledge agreements, the amount of registered equity interests pledged to our wholly-owned subsidiaries 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.

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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 wholly owned by Century Friendship, a PRC domestic company which is beneficially owned 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 13.5% of our total common shares issued and outstanding as of September 23, 2017. 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 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 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 SAIC. 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 New Oriental China and its schools and subsidiaries 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, New Oriental China and its schools and subsidiaries have the apparent authority to enter into contracts on behalf of such entities without chops. All designated legal representatives of our PRC subsidiaries and New Oriental China and its schools and subsidiaries are members of our 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 New Oriental China and its schools and subsidiaries, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees or designated legal representatives could abuse their authority, for example, by binding the relevant subsidiary or New Oriental China and its schools and subsidiaries 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.

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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 (2003) and The Implementation Rules for the Law for Promoting Private Education (2004). Under these regulations, a private school may elect to be a school that does not require reasonable returns or a school that requires reasonable returns. As of May 31, 2017, 22 of our schools elected as schools not requiring reasonable returns, 39 of our schools elected as schools requiring reasonable returns, and the remaining schools are not classified or registered as companies.

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 equivalent to no less than 25% of the annual increase in the net assets of the school, if any. A private school that requires reasonable returns must publicly disclose such election and additional information required under the regulations. A private school shall consider factors such as the school's tuition, ratio of the funds used for education-related activities to the course fees collected, admission standards and educational quality when determining the percentage of the school's net income that would be distributed to the investors as reasonable returns. However, none of the current PRC laws and regulations provides a formula or guidelines for determining reasonable returns. In addition, none of the current PRC laws and regulations sets forth different requirements or restrictions on a private school's ability to operate its education business based on such school's status as a school that requires reasonable returns or a school that does not require reasonable returns.

In some cities, our schools are registered as schools that require reasonable returns, while in other cities, our schools are registered as schools that do not require reasonable returns.

On November 7, 2016, the Standing Committee of the National People's Congress promulgated the Amended Law for Promoting Private Education, 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 school may choose to establish non-profit or for-profit private schools at their own discretion. 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 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 Item 4. Information on the Company B. Business Overview Regulation.

Upon the implementation of the Amended Private Education Law and the relevant regulations, if our schools choose to be for-profit private education entities, they may be subject to income tax at the rate of 25% and other taxes as if they were enterprises. For the year ended May 31, 2017, schools that accounted for approximately 60.3% of our consolidated net revenues were subject to a 25% income tax rate. Historically, the effective income tax rates for all our schools were 8.55%, 11.05% and 12.17% in the fiscal years ended May 31, 2015, 2016 and 2017, respectively. Additionally, the cost of reregistration may be involved if our schools choose to be for-profit private education entities, including the payment of overdue enterprise income tax. If our schools choose to be not-for-profit private education entities, our contractual arrangements with New Oriental China and its schools and subsidiaries may be subject to more stringent scrutiny. As a result, implementation of the Amended Private Education Law or the relevant regulations may adversely affect our results of operations. However, as the implementation rules for the Amended Private Education Law or the relevant regulations have not been issued yet, it remains uncertain how the Amended Private Education Law will be interpreted and implemented, what impact it would have on our business operations,

and whether our schools meet the requirements and conditions to register as for-profit private schools and the cost or difficulties of the registration.

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Our contractual arrangements 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.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our wholly-owned subsidiaries in China and New Oriental China and its schools and subsidiaries do not represent an arm's-length price and adjust New Oriental China or any of its schools or its subsidiaries' 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 New Oriental China or any of its schools or its subsidiaries, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to New Oriental China and its schools and subsidiaries for 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 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.

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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 approved by 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 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, or SAFE Circular 142 to regulate the conversion by a foreign-invested company of its capital contribution in foreign currency into RMB. SAFE Circular 142 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 the SAIC and, unless set forth in the business scope or in other regulations, may not be used for equity investments within the PRC. In addition, SAFE 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. We expect that if we convert the net proceeds from offshore offerings into RMB pursuant to SAFE Circular 142, our use of RMB funds will be for purposes within the approved business scope of our PRC subsidiaries. However, we may not be able to use such RMB funds to make equity investments in China through our PRC subsidiaries. SAFE promulgated the Notice on Reforming the Management Method relating to Conversion of the Capital Contribution of Foreign Invested Company from Foreign Exchange to Renminbi, or SAFE Circular 19, effective June 2015, which abolished SAFE Circular 142, but the foregoing rules have been retained in SAFE Circular 19. SAFE promulgated the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, effective in June 2015. Pursuant to SAFE Circular 13, annual foreign exchange inspection of direct investment is not required anymore and the registration of existing equity is required. SAFE Circular 13 also grants the authority to banks to examine and process foreign exchange registration with respect to both domestic and offshore direct investment. SAFE issued the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Circular 16, effective in June 2016. Pursuant to SAFE Circular 16, enterprises registered in China may also convert their foreign debts from foreign currency to RMB on a self-discretionary basis. SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis which applies to all enterprises registered in China. SAFE Circular 16 reiterates the principle that RMB converted from foreign currency-denominated capital of a

company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, while such converted RMB shall not be provided as loans to its non-affiliated entities. As SAFE Circular 16 is newly issued and SAFE has not provided detailed guidelines with respect to its interpretation or implementations, it is uncertain how these rules will be interpreted and implemented. See also Item 4. Information on the Company B. Business Overview Regulation.

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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. Under PRC laws and regulations, the PRC government authorities are required to process such approvals or registrations or deny our application within a prescribed period which is usually less than 90 days, but may be longer due to administrative delay. 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 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.

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, 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.

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Risks Related to Doing Business in China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

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 to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth for over three decades, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments, conversion of foreign exchange into Renminbi or changes in tax regulations that are applicable to us. In addition, future actions or policies of the PRC government to control the pace of economic growth may cause a decrease in the level of economic activity in China, which in turn could materially affect our liquidity and access to capital and our ability to operate our business.

In addition, the changes in the policies regarding the control of foreign exchange could adversely affect our business. In 2016, PRC government implemented various measures and policies regarding strengthening the management and supervision control of foreign control in both capital item and current item, which resulted in extension of time in the filing, registration and approval procedures of local branches and authorized banks in foreign control activities, and could result in delayed payment of salary to foreign employees by our subsidiaries and subsidiaries of our variable interest entity. The evolving policies regarding strengthening the management and supervision control of foreign control could adversely affect our business.

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.

The global financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and it is facing new challenges, including the escalation of the European sovereign debt crisis since 2011 and the slowdown of the Chinese economy since 2012. It is unclear whether the European sovereign debt crisis will be contained and when the Chinese economy will resume the high growth rate. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China's. There have also been concerns over unrest in the Middle East and Africa, which have resulted in higher oil prices and significant market volatility, and over the possibility of a war involving Iran. There have also been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan and the relationship between China and Japan.

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.

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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.

Substantial uncertainties exist with respect to the enactment timetable, final content, interpretation and implementation of draft PRC Foreign Investment Law published for public comments and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Ministry of Commerce has solicited comments on this draft and substantial uncertainties exist with respect to its enactment timetable, final content, interpretation and implementation.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of actual control in determining whether a company is considered a foreign-invested enterprise. The draft Foreign Investment Law specifically provides that entities established in China but controlled by foreign investors will be treated as foreign-invested enterprises, whereas an entity established in China by an investor from a foreign jurisdiction would nonetheless be, upon market entry clearance by the Ministry of Commerce, treated as a PRC domestic investor in a restricted industry as indicated in the negative list, provided that the entity is controlled by PRC entities and/or citizens. In this connection, control is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% or more of the shares, voting rights or other similar rights of the subject entity; (ii) holding less than 50% of the shares, voting rights or other similar rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. Once an entity is determined to be a foreign-invested enterprise, it will be subject to the foreign investment restrictions or prohibitions set forth in a negative list, to be separately issued by the State Council at a later date. Unless the underlying business of the foreign-invested enterprise falls within the negative list, which calls for market entry clearance by the Ministry of Commerce, prior approval from the government authorities as mandated by the existing foreign investment legal regime would no longer be required for establishment of the foreign-invested enterprise.

The variable interest entity structure, or VIE structure, has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See Item 3 Key Information D. Risk Factors Risks Related to Our Corporate Structure and Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with New Oriental China, its Schools and Subsidiaries and its Shareholder. Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as foreign-invested enterprises, if they are ultimately controlled by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is included in the negative list as restricted industry, the VIE structure may be deemed legitimate if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies or PRC citizens) or the foreign investment obtains market entry clearance from the Ministry of Commerce. Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as foreign-invested enterprises and any operation in the industry category on the negative list without market entry clearance may be considered as illegal. There are uncertainties as to whether the Foreign Investment Law, once it is enacted, will have retrospective effect on existing VIE structures such as ours, or will grant real and full grandfathering and grace periods for such existing VIE structures.

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It is likely that we would not be considered as ultimately controlled by Chinese parties, as our record shareholders in the U.S. hold a substantial majority of our total voting power. The draft Foreign Investment Law has not taken a position on what actions will be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties, while it has solicited comments from the public on this point. If the enacted version of the Foreign Investment Law and the final negative list mandate further actions, such as market entry clearance or certain restructuring of our corporate structure and operations, to be completed by companies with existing VIE structure like us, there may be substantial uncertainties as to whether we can complete these actions in a timely manner, or at all, and our business and financial condition may be materially and adversely affected.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable foreign-invested enterprises. Aside from an investment implementation report and an investment amendment report that are required for each investment and alteration of investment specifics, an annual report is mandatory, and large foreign-invested enterprises meeting certain criteria are required to report on a quarterly basis. Also, the Ministry of Commerce may supervise and examine the foreign investors and the FIEs regularly or irregularly on their compliance with the Foreign Investment Law. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

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 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.

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.

We are required to obtain and maintain various licenses and permits and fulfill registration and filing requirements in order to conduct and operate our business. For instance, to establish and operate a school to provide language training and test preparation services, we are required to obtain a private school operating permit and to make necessary filings for each learning center with the local counterparts of the Ministry of Education and the Ministry of Civil Affairs. In June 2017, the Chengdu Education Bureau, Chengdu Civil Affairs Bureau and certain other local governmental authorities issued the Bulletin on Governing the Operation of Private Cultural and Educational Training Activities, which provides that private schools may not establish branches. It is uncertain whether the implementation rules of the Amended Private Education Law and other supporting regulations will have more stringent requirements for learning centers, such as requiring all learning centers nationwide to obtain private school operating permits. If we fail to comply with applicable legal requirements, we may be subject to fines, confiscation of any gains derived from our

non-compliant operations or the suspension of our non-compliant operations, which may materially and adversely affect our business and results of operations. Our business is also subject to various health, safety and other regulations that affect various aspects of our business in the cities in which we operate 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. 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.

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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 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. 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. The failure of these beneficial owners to timely amend their SAFE registrations, if required, or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in the SAFE notice 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.

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, 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, which could make it more difficult for us to pursue growth through acquisitions in China.

In August 2006, the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission, or the CSRC, and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, commonly referred to as the M&A Rules. 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 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.

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

The economy of China has been experiencing significant growth, leading to inflation and increased labor costs. According to the National Bureau of Statistics of China, the year-over-year percent change in the consumer price index in China, the broadest measure of inflation, was 1.5% for May 2017. China's overall economy and the average wage in the PRC are expected to continue to grow. As a result, the average wage level for our employees has also increased in recent years. Future increases in China's inflation and material increases in the cost of labor may diminish our competitive advantage and, unless we are able 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.

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 the repayment of loans denominated in foreign currencies. 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 value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. The conversion of the RMB into foreign currencies, including the U.S. dollar, has been based on exchange rates set by the People's Bank of China. The PRC government allowed the Renminbi to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation was halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the RMB 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 the RMB and the U.S. dollar in the future. In addition, there remains significant international pressure on the PRC government to adopt a substantial liberalization of its currency policy, which could result in further appreciation in the value of the RMB against the U.S. dollar.

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 revaluation of the RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. 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

ADSs.

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In March 2007, the National People's Congress passed the Enterprise Income Tax Law, or the EIT Law, which took effect in January 2008. 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 and other supplemental rules promulgated by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation 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.

In December 2008, two of our wholly-owned subsidiaries in China, Beijing Hewstone Technology Co., Ltd., or Beijing Hewstone, and Beijing Decision Education & Consulting Co., Ltd., or Beijing Decision, and one subsidiary of New Oriental China, Beijing New Oriental Xuncheng Network Technology Co., Ltd., or Xuncheng Network, were recertified as high and new technology enterprise in Beijing. In November 2015, one of our wholly-owned subsidiaries in China, Beijing Pioneer Technology Co., Ltd., or Beijing Pioneer, was certified as a high and new technology enterprise. In December 2016, one of our wholly-owned subsidiaries in China, Beijing Smart Wood Software Technology Co., Ltd., or Beijing Smart Wood, was also certified as a high and new technology enterprise. All of them are entitled to a 15% tax rate as long as they continue to qualify as a high and new technology enterprise. Enterprises that qualify as a software enterprise are 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. Seven of our wholly-owned subsidiaries in China, Beijing Smart Wood, Beijing Joy Tend, Beijing Right Time, Beijing Top, Beijing Shenghe, Beijing Magnificence and Beijing Jinghong, are qualified as software enterprises. Beijing Smart Wood was entitled to an income tax exemption from in 2012 and 2013 followed by reduced income tax at a rate of 12.5% from 2014 through 2016. Beijing Right Time and Beijing Joy Tend were exempt from income taxes in 2013 and 2014 and are eligible for reduced income taxes at a rate of 12.5% from 2015 through 2017. Beijing Top and Beijing Shenghe were exempt from income taxes in 2014 and 2015 and are eligible for reduced income taxes at a rate of 12.5% from 2016 through 2018. Beijing Magnificence is entitled to an income tax exemption in 2015 and 2016 followed by reduced income tax at a rate of 12.5% from 2017 through 2019. Beijing Jinghong is entitled to an income tax exemption in 2017 and 2018 followed by reduced income tax at a rate of 12.5% from 2019 through 2021.

According 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. As of May 31, 2017, 22 of our schools elected as schools not requiring reasonable returns, 39 of our schools elected as requiring reasonable returns and the remaining schools were not classified or registered as companies. The implementation rules of the EIT Law provide certain conditions under which not-for-profit entities may be exempted from enterprise income tax. According to such conditions, our schools may not be entitled to income tax exemption. To date, however, no separate specific regulations or policies have been promulgated by the relevant authorities in this regard and 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 starting from January 1, 2008, 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. Shanghai promulgated the Interim Measures for the Registration of Operational Private Training Institutions, or Measure No. 5, which requires for-profit private training institutions to register with local administration of industry and commerce bureau. The Measure No. 5 came into effect in August 2013 and expired after two years. However, based on telephone inquiries our PRC counsel made to the Shanghai Municipal Education Commission, these provisional measures still apply in practice, since no alternative regulation is currently available. Our school in Shanghai has been subject to 25% standard enterprise income tax, and is thus not affected by Measure No. 5. However, if similar regulations or policies are promulgated in other cities where we operate, and our schools choose to be or are required to be registered as for-profit private training institutions, they may be required to pay 25% standard enterprise income tax, which may be higher than the tax rates they are currently subject to, and our results of operations may be materially and adversely affected. Beijing Haidian School was not required by the governing tax bureau to pay any EIT since its establishment through May 31, 2017. Prior to the promulgation of new laws and regulations or significant changes of tax policy are made by the competent tax authorities, Beijing Haidian Schools may continue their current income tax treatment subject to the current practice of tax authorities. As the Amended Private Education Law took effect on September 1, 2017, the income tax treatment of Beijing Haidian Schools shall be judged according to the specific provisions promulgated by the competent departments of finance, taxation and education of the State Council and/or Beijing government.

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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 management body would be considered to be located in China are currently unclear. The State Administration of Taxation 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 State Administration of Taxation 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. 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 State Administration of Taxation'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 State Administration of Taxation 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.

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.

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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 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, or the Double Taxation Arrangement (Hong Kong), which became effective in January 2007, the Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates, which was issued in 2008, and the Notice of the State Administration of Taxation Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties, which became effective in October 2009, 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 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.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation in December 2009, where a foreign investor transfers the equity interests in a PRC resident enterprise indirectly via disposition of the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that (1) has an effective tax rate less than 12.5% or (2) does not tax foreign income of its residents, the foreign investor shall report the Indirect Transfer to the competent PRC tax authority. The PRC tax authority will examine the nature of such Indirect Transfer, and if the tax authority considers that the foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC taxes, it may disregard the existence of the overseas holding company and re-characterize the Indirect Transfer such that gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. Circular 698 was partially terminated by the Announcement of the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax on Indirect Property

Transfer by Non-Resident Enterprises, or Bulletin 7, pursuant to which where a non-resident enterprise indirectly transfers properties such as equity in PRC resident enterprises without any justifiable business purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in PRC resident enterprise. To determine whether there are reasonable commercial purposes, all arrangements related to the indirect transfer of PRC taxable properties shall be considered comprehensively and factors set out in the Announcement shall be comprehensively analyzed in light of the actual situation.

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

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

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

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

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

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

Starting in 2011 the Chinese affiliates of the "big four" accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and PRC law. Specifically, for certain U.S. listed companies operating and being audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese accounting firms access to their audit work papers and related documents. The accounting firms were, however, advised and directed that under PRC 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 China Securities Regulatory Commission, or the CSRC.

In late 2012 this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the 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 accounting firms. The administrative law

judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the commissioners of the SEC. On February 6, 2015, before a review by the commissioners of the SEC had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepted 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.

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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 to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these accounting firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

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

Risks Related to Our ADSs

The market price for our ADSs may be volatile.

The market price for our ADSs has fluctuated significantly since our ADSs became listed on the New York Stock Exchange, or the NYSE, on September 7, 2006. See Item 9. The Offer and Listing C. Markets for more information. The market price for our ADSs 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,

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 stock market in general, and the market prices for companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other 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. Further, the global financial crisis and the ensuing economic recessions in many countries and the slowing Chinese economy have contributed and may continue to contribute to extreme volatility in the U.S. stock market. These broad market and industry fluctuations may adversely affect our operating performance. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, some of whom have been granted options and other share incentives under our share incentive plans.

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We may need additional capital, and the sale of additional ADSs or other equity securities could result in additional dilution to our shareholders.

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 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 center 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 global economic recession. 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 securities or industry analysts publish negative reports about our business, the price and trading volume of our ADSs securities could decline.

The trading market for our ADSs is 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 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 ADSs or trading volume to decline.

You may not have the same voting rights as the holders of our common shares and may not receive voting materials in time to be able to exercise your right to vote.

Except as described in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the common shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depository or its nominee as their representative to exercise the voting rights attaching to the common shares represented by the ADSs. You may not receive voting materials in time to instruct the depository to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. Upon our written request, the depository will mail to you a shareholder meeting notice which contains, among other things, a statement as to the manner in which your voting instructions may be given, including an express indication that such instructions may be given or deemed given to the depository to give a discretionary proxy to a person designated by us if no instructions are received by the depository from you on or before the response date established by the depository. However, no voting instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which we inform the depository that (1) we do not wish such proxy given, (2) substantial opposition exists or (3) such matter materially and adversely affects the rights of shareholders.

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You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depository 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.

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

Your ADSs are transferable on the books of the depository. However, the depository 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 depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository 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.

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

We are incorporated 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 outside of the United States. As a result, it may be difficult for you to effect service of process within the United States or elsewhere outside the Cayman Islands and China upon us or our executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. It may also be difficult or impossible for you to bring an action against us or against our executive officers in the Cayman Islands or in China in the event that you believe that your rights as an ADS holder have been infringed under the securities laws of the United States or otherwise. Even if you are successful in bringing an action of this kind in the United States, the respective laws of the Cayman Islands and China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

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

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2013 Revision) and 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. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, 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.

As a result of all of the above, holders and beneficial owners of our ADSs 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.

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 of association 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 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 ADSs may fall and the voting and other rights of the holders of our common shares and 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 its average quarterly assets as determined on the basis of fair market value during such year produce or are held for the production of passive income.

Although the law in this regard is unclear, we treat New Oriental China as being owned by us for U.S. federal income tax purposes, not only because we control its management decisions but also because we are entitled to substantially all of the economic benefits associated with this entity, and, as a result, we consolidate this entity's operating results in our combined financial statements. If it were determined, however, that we are not the owner of New Oriental China

for U.S. federal income tax purposes, we may be or become a PFIC. Assuming that we are the owner of New Oriental China for U.S. federal income tax purposes, and based upon an analysis of our company's income and assets in respect of the 2017 taxable year, we do not believe that we were a PFIC, for U.S. federal income tax purposes, for the taxable year ended May 31, 2017. In light of the amount of our cash balances and 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, the determination of whether we will be or become a PFIC will depend in large part upon the market value of our ADSs, of which we cannot control. Accordingly, fluctuations in the market price of our ADSs 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. There can be no assurance that our business plans will not change in a manner that will affect the composition of our income and assets and our PFIC status. Because there are uncertainties in the application of the relevant 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.

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If we were to be classified as a PFIC in any taxable year, a U.S. Holder (as defined in Item 10. Additional Information E. Taxation U.S. Federal Income Taxation) 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 generally will 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. See Item 10. Additional Information E. Taxation U.S. Federal Income Taxation Passive Foreign Investment Company Rules.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Our first school was established by Michael Minhong Yu, our executive chairman, in Beijing, China in 1993 to offer TOEFL test preparation courses to college students. We established New Oriental China in 2001 as a domestic holding company to act as the sponsor of our schools and hold some operating subsidiaries. Since our inception, we have grown rapidly and transformed ourselves from primarily a language training and test preparation company to the largest provider of private educational services in China offering a wide range of educational programs, services and products to a varied student population throughout China.

In order to facilitate foreign investment in our company, we established our offshore holding company, New Oriental Education & Technology Group Inc., in the British Virgin Islands in August 2004. On January 25, 2006, our shareholders approved the change of our offshore holding company's corporate domicile to the Cayman Islands, and we are now a Cayman Islands company. Since December 2007, we have established three wholly-owned subsidiaries in Hong Kong, which now directly own our wholly-owned subsidiaries in China.

We and certain selling shareholders of our company completed an initial public offering and listed our ADSs on the NYSE under the symbol EDU in September 2006. In February 2007, we and certain selling shareholders of our company completed an additional public offering of ADSs. On August 18, 2011, we effected a change in the ratio of our ADSs to common shares from one ADS representing four common shares to one ADS representing one common share.

Xuncheng Network, a majority-owned subsidiary of New Oriental China, which operates our online education platform, Koolearn.com, submitted an application for the listing and open transfer of its shares on the National Equities Exchange and Quotations in China. The listing application has received the approval from the National Equities Exchange and Quotations Co. Xuncheng Network's shares have started trading on the NEEQ since March 21, 2017.

Our principal executive offices are located at No. 6 Hai Dian Zhong Street, Haidian District, Beijing 100080, People's Republic of China. Our telephone number at this address is +(8610) 6090-8000. Our registered office in the Cayman Islands is located at Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. We have branch offices in 65 cities in China.

B. Business Overview

We are the largest provider of private educational services in China based on the number of program offerings, total student enrollments and geographic presence. We offer a wide range of educational programs, services and products, consisting primarily of language training and test preparation, primary and secondary school education, online education, content development and distribution, overseas study consulting services, pre-school education and study tour. We provide educational services primarily under our New Oriental brand, which we believe is the leading consumer brand in China's private education sector.

Since our inception in 1993, we have had approximately 30.1 million cumulative student enrollments. In the fiscal year ended May 31, 2017, we had over 4.8 million student enrollments, including approximately 4.0 million student enrollments in our K-12 after-school tutoring courses, approximately 0.6 million student enrollments in our test preparation courses and approximately 0.1 million student enrollments in our language training programs. We deliver our educational programs, services and products to students through an extensive physical network of schools, learning centers and bookstores, as well as through our virtual online network.

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Our total net revenues increased from US\$1,246.8 million for the fiscal year ended May 31, 2015 to US\$1,799.5 million for the fiscal year ended May 31, 2017, representing a compound annual growth rate, or CAGR, of 20.1%. Net revenues from our language training and test preparation courses accounted for 83.4%, 83.8% and 83.9%, respectively, of our total net revenues in the fiscal years ended May 31, 2015, 2016 and 2017. Net income attributable to New Oriental Education & Technology Group Inc. increased from US\$193.0 million in the fiscal year ended May 31, 2015 to US\$274.5 million in the fiscal year ended May 31, 2017, representing a CAGR of 19.3%.

Our Network

As of May 31, 2017, we deliver our educational programs, services and products to students through our extensive network of 77 schools, 855 learning centers and 20 bookstores operated by us, approximately 22,000 teachers in 65 cities, and websites, which had approximately 17.0 million registered users, as well as through 187 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, which has been essential in helping us promote our brand and our programs, services and products by word-of-mouth referrals and through our students' and alumni's academic and career achievements. We plan to continue to open new schools and learning centers in cities that exhibit strong enrollment potential.

All of our schools, learning centers and bookstores operate under our New Oriental brand. Our hub 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 based on various factors, including demographics and the number of colleges in, and the economic condition of, the particular region. We have opened bookstores in our established schools to primarily sell educational materials relating to our courses and also sell self-help, know-how, inspirational and other books.

We lease all of our facilities except for our Yangzhou school, part of the premises for our headquarters in Beijing and our schools in Xi'an, Tianjin, Kunming, Wuhan, Guangzhou, Xiamen, Changsha and Zhengzhou. The following table sets forth information concerning the locations of our schools, learning centers and bookstores as of May 31, 2017.

City	Number of schools	Number of learning centers	Number of bookstores
Beijing	5	92	1
Shanghai	1	51	1
Guangzhou	1	30	1
Wuhan	1	48	1
Yangzhou	3		
Tianjin	1	27	
Xi'an	1	21	1
Nanjing	2	17	
Shenyang	1	26	
Chongqing	1	13	1
Chengdu	1	24	1
Shenzhen	1	15	
Xiangyang	1	9	
Taiyuan	1	24	1

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Haerbin	1	14	1
Changsha	1	24	
Jinan	1	17	
Zhengzhou	1	34	
Hangzhou	1	21	1
Changchun	3	14	1
Shijiazhuang	1	11	
Suzhou	1	29	1
Zhuzhou	1	2	
Anshan	1	1	

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City	Number of schools	Number of learning centers	Number of bookstores
Hefei	1	23	
Kunming	1	20	1
Wuxi	1	10	
Foshan	1	5	
Fuzhou	1	12	
Yichang	1	3	
Nanchang	1	23	1
Jingzhou	1	4	
Dalian	1	7	1
Lanzhou	1	9	1
Huangshi	1	2	
Ningbo	1	6	
Xiamen	1	19	
Qingdao	4	10	
Nanning	1	6	
Xuzhou	1	6	1
Xiangtan	1	1	
Zhenjiang	1	3	
Luoyang	1	5	
Nantong	1		
Jilin	1	5	
Guiyang	1	5	
Hohhot	1	4	1
Tangshan	1	7	
Urumqi	1	7	1
Shiyao	1	3	
Quanzhou	1		
Wenzhou	1	1	
Weifang	1	2	
Zhuhai	1	1	1
Jinzhou	1	2	
Baoding	1	1	
Yantai	1	1	
Taian	1		
Kaifeng	1		
Cangzhou	1		
Qinhuangdao	1		
Anyang	1		
Handan	1		
Zhangzhou	1		
Nanyang	1	1	
Total	77	778	20

Our Programs, Services and Products

We provide a wide variety of educational programs, services and products. We deliver education to our students primarily in traditional classroom settings and also through online instruction. With the exception of the full-time primary and secondary school in Yangzhou and a full-time secondary school in Beijing, our classroom-based courses are generally designed to be completed in 2 to 16 weeks. Course fees are determined based on the length of the course, the size and the subject of the class, the area of study and the geographic location of the school. We update and expand our course offerings frequently in response to evolving market needs. We currently have a full-time staff of approximately 700 people involved in our centralized curriculum development process. Our program, service and product offerings are generally divided into seven areas: test preparation; K-12 after-school tutoring; language training; primary and secondary schools; educational content, software and other technology development and distribution; online education; and other services and products.

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Test Preparation Courses

We offer test preparation courses to students taking language and entrance exams used by educational institutions in the United States, the PRC and Commonwealth countries. In our fiscal year ended May 31, 2017, we had approximately 612,000 student enrollments in our test preparation courses, of which approximately 298,000 were in overseas test preparation courses, 314,000 were in PRC test preparation courses.

We offer test preparation courses for the following major overseas exams: TOEFL, SAT, ACT, IELTS, GRE, GMAT, LSAT, BEC and TOEIC. In addition, we offer test preparation classes for the following major PRC admissions tests: CET 4, CET 6, National Tests for Entrance into Master's Degree Programs, and PETS.

In our fiscal year ended May 31, 2017, approximately 31.7% and 10.0% of the total student enrollments in our overseas test preparation courses took place in Beijing and Shanghai, respectively, and approximately 13.0% and 10.4% of the total student enrollments in our PRC test preparation courses took place in Xi'an and Beijing, respectively. 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. Except for the customized VIP class, our experienced teachers generally teach in classes ranging from 6 to 50 students. Our students enroll in a 50- to 240-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 RMB1,500 to RMB30,000 per course.

K-12 After-School Tutoring Courses

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 achieve better scores on entrance exams for admission into high schools or higher education institutions.

English proficiency is tested as a major subject of entrance exams for admission into China's high schools, colleges and universities. In 2002, we first established English after-school training program for middle and high school students. In March 2008, we launched our New Oriental U-Can All Subjects training program, which targets middle and high school Chinese students from ages 13 to 18 who are preparing for the high school entrance examination in China, known as the zhongkao and the college entrance examination, known as the gaokao. The gaokao is required for admission to bachelor degree programs and most associate degree programs at Chinese colleges and universities. To complement New Oriental U-Can All Subjects training program, we provide tutoring services to students who seek to retake the gaokao through Tongwen Gaokao School, a private school based in Changchun. In February 2009, we launched a customized learning program for students from ages 12 to 18, offering small class size tutoring ranging from one to five students per class, in all subjects required for the college and high school entrance examinations, respectively. With this strategy of offering affordable larger classes and higher priced individualized small classes for school aged children, we aim to capture more market share in the after-school training market in China.

Our typical U-Can All Subjects after-school tutoring courses for middle school and high school students last for 8 to 16 weeks with classroom instruction one to four times per week for 2 to 3 hours per visit. 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. The sizes of these courses typically range from 6 to approximately 150 students per class.

In our fiscal year ended May 31, 2017, we had approximately 2,216,000 student enrollments in our after-school tutoring courses for middle school and high school students, and approximately 20.2% and 9.1% of the enrollments took place in Beijing and Xi'an, respectively. Course fees for our all subject after-school tutoring courses for middle school and high school students range from approximately RMB400 to approximately RMB5,000 per course.

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After-School Tutoring Courses for Children. English is a major subject in elementary schools. We established our English for children program in 2002 for children in kindergarten through grade six and it has achieved rapid growth since that time. We designed our English for children 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 child 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 offered after-school tutoring courses in English, math, Chinese, writing, music and arts for children in kindergarten and elementary schools.

Our after-school tutoring courses for children are typically divided into classes of 6 to approximately 25 students per class. Students attend class one to four times per week for 2 to 3 hours per class. We test our students to measure their 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.

To enhance our Pop Kids English program, we cooperate with the Sino-British Academic Exchange Center for Education Measurement (SBC), Cambridge ESOL's sole representative in China, for the administration of the Cambridge Young Learners English exam (YLE) to our students in the Pop Kids English program. Cambridge ESOL is a not-for-profit department of the University of Cambridge focusing on examinations for the English language. We currently administer the YLE exam for our POP Kids English students in 17 cities.

In our fiscal year ended May 31, 2017, we had approximately 1,739,000 student enrollments in our Pop Kids All Subjects after-school tutoring courses and approximately 10.9% and 9.2% of the enrollments took place in Beijing and Wuhan, respectively. Course fees for these courses range from approximately RMB300 to approximately RMB3,600 per course.

Language Training Courses for Adults

We provide various types of English language training courses as well as training courses for other foreign languages, including German, Japanese, French, Korean, Italian and Spanish.

English language training courses is a primary component of our language training courses. Many employers in China, including foreign-invested enterprises, multinational corporations' branch offices as well as domestic enterprises involved in international business transactions or the tourism industry, require their employees to have a high level of English proficiency. Our English for adults program offers courses designed to teach and improve students' English writing, reading, listening and speaking skills. Our schools and learning centers also have language labs at which our students can listen to and recite spoken passages on CDs and audio tapes to improve their listening and speaking skills. A typical course lasts for 6 to 12 weeks with classroom instruction 1 to 5 times per week for 1.5 to 5 hours per visit. 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. The sizes of our English courses for adults typically range from 6 to approximately 50 students per class.

In our fiscal year ended May 31, 2017, we had approximately 90,000 student enrollments in our English courses for adults and approximately 36.9% and 15.8% of the total enrollments were for courses taught in Beijing and Shanghai, respectively. Course fees for our English courses for adults range from approximately RMB300 to approximately RMB3,600 per course.

Primary and Secondary Schools

We established the first full-time private primary and secondary school in Yangzhou in 2002. This is a private boarding school for students in grades 1 to 12 seeking a full curriculum taught in both Chinese and English, with a strong emphasis on English language training. We target parents who desire to provide their children with a global vision and an understanding and appreciation of both traditional Chinese culture and the modern world, a competitive advantage in academics and social development and English language proficiency. Our goal is to develop the Yangzhou school, and other new schools to be established in the future, into elite schools whose students consistently gain acceptance into the top universities in China and around the world.

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We attempt to immerse our students in the English language at an early age through native English speaking teachers and activities designed to emphasize early and significant exposure to a bilingual environment. The Yangzhou private school has a capacity of up to 4,000 students. As of May 31, 2017, there were over 3800 students at the Yangzhou school, approximately 48% of whom came from Yangzhou, with the remainder from various parts of China. Our students must take an admission test and undergo an interview to gain acceptance into our school.

There are over 400 teachers and 300 supporting staff at the Yangzhou school. The school has been regarded as one of the best primary and secondary schools in the local market since shortly after its inception. In our fiscal year ended May 31, 2017, the school accepted 1,121 students out of over approximately 1,900 applicants from the local market as well as elsewhere in China.

The Yangzhou school has received various accreditations from local authorities. We work closely with the local educational authorities to make sure that our curriculum is compatible with public school curriculums and covers the full spectrum of required courses. We have also expanded our curriculum to include subjects, activities and techniques that teach the students to learn and think independently. There is less emphasis on memorization and recitation and greater emphasis on creative thinking and analytical activities. We use computers as a major part of our teaching and learning methods and encourage students to learn in an interactive format. In our fiscal year ended May 31, 2017, tuition at the Yangzhou school ranged from RMB22,000 to RMB75,000 per year.

In July 2006, we established an international high school program within the Yangzhou school. In July 2010, we opened an international high school in Beijing. Our international high school aims to provide students with a full curriculum of high school education in a bilingual environment while preparing them for admission into foreign universities. Each of the students of the class of 2017 of the international high school program at our Yangzhou school was admitted into at least one of the top 100 universities in the United States. In our fiscal year ended May 31, 2017, tuition at our international school ranges from RMB95,000 to RMB120,000 per year.

Educational Content, Software and other Technology Development and Distribution

We develop and edit educational materials for language training and test preparation, such as books, software, CD-ROMs, magazines and other periodicals. We distribute these materials through various distribution channels, consisting of our classrooms and bookstores as well as third-party distributors. In the fiscal year ended May 31, 2017, we developed and edited about 235 titles and distributed approximately 15.5 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 English language area.

Our extensive distribution channels have attracted international education content providers to cooperate with us in distributing localized versions of their materials in China. We currently have arrangements with British Council, Cengage Learning, Coursera, Monash College Pty Ltd, NCUK, International Baccalaureate, Bell Education, ETS, HMH, Cambridge University Press, Cambridge English Language Assessment, The McGraw-Hill Companies, Pearson Education, Oxford University Press, Harper Collins or their respective authorized local publishers, to develop and distribute localized versions of selected educational materials in China, some of which bear both our logo and the original publisher's logo. We plan to establish additional strategic relationships with leading international education content providers to enrich our content offerings.

Online Education

We offer online education programs on our website www.koolearn.com and www.koo.cn. As of May 31, 2017, approximately 17.0 million users had registered accounts with us, with access to free informational content on our

website. In the fiscal year ended May 31, 2017, we had approximately 855,000 users that paid for additional access to our specialized education programs. These users purchase pre-paid cards that give them the right to use our paid content for a specific period of time or for specific courses.

In the fiscal year ended May 31, 2017, we offered approximately 4,600 new online courses, including language training courses, test preparation courses, professional certification courses, and business knowledge and skills training courses in the areas of accounting, legal, management and others. We have live interactive online courses as well as courses that allow students to view replays of pre-recorded lectures. Our online courses are particularly attractive to students who need the flexibility to prepare at any time of the day or night and on short notice. As a supplement to our online courses, we also offer many online study services, including course planning, testing, composition correcting and one-on-one tutoring. Our online tools provide more flexibility by offering our students the ability to choose their best and most convenient way of learning as they experience our programs.

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Partially through our Koolearn.com website, we also offer enterprise clients customized training services. By working closely with enterprise clients, we gain a good understanding of the clients' specific training needs and design training solutions to meet those needs. We also have the capability to develop customized e-learning management systems for enterprise clients.

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 students with the immigration process for overseas studies, such as obtaining visas and housing. We charge each student a fee based on the scope of consulting services requested by the student.

Pre-school Education. In September 2007, we established our pre-school business with the opening of our first kindergarten in Beijing. We opened our second kindergarten in Nanjing in April 2009, the third one in Yangzhou in August 2014 and the fourth one in Beijing in January 2017. As of May 31, 2017, there were approximately 940 students at these four kindergartens. In December 2014, we acquired a kindergarten chain in the city of Qingdao with three schools, which had approximately 750 students as of May 31, 2017.

Brand Name Cooperation. In January 2010, we established a small pilot program whereby we permit third parties in certain small cities to offer our Pop Kids English program and New Oriental Star kindergarten program under a brand name cooperation model. The cooperation schools operated by such third parties are not included in the counts of our schools and learning centers, and student enrollments from these schools are not included as our student enrollments. In October 2013, we terminated the brand name cooperation for New Oriental Star kindergarten program. As of May 31, 2017, there were a total of 14 brand cooperation schools offering our Pop Kids English program. For the fiscal years ended May 31, 2015, 2016 and 2017, we recognized revenues in an aggregate amount of US\$680 thousand, US\$265 thousand and US\$311 thousand, respectively, from license and training fees received from these schools.

Overseas Study Tour. In May 2012, we started our overseas study tour business, organizing primary and middle school 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. For the fiscal year ended, May 31, 2017, we recognized revenues of US\$17.3 million from organizing overseas study tour.

Marketing and Student Recruitment

We employ a variety of marketing and recruiting methods to attract students. We have positioned ourselves as a provider of private educational services that inspires students to achieve their potential and build self-confidence and that boosts students' enthusiasm for learning. We believe prospective students are attracted to our schools due to our excellent brand name, the quality of our programs and our relatively long operating history in the private education sector.

We employ the following marketing methods to attract new and returning students:

Speeches and Seminars. Our management, most of whom are experienced teachers and were among our earliest teachers, and our top teachers frequently 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.

Referrals. Historically, our student enrollments have grown primarily through word-of-mouth referrals. Our student enrollments have benefited and will continue to benefit by referrals from our extensive network of students and alumni and the successful academic and professional careers that many of them have achieved.

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Distribution of Marketing Materials. We use New Oriental booths and information tables to distribute free inspirational books authored by our executive chairman Michael Minhong Yu and others, informational brochures, posters and flyers at various on-campus events, educational expos, conferences and college and employment fairs. We also conduct extensive free information sessions to introduce our programs to our target markets.

Advertisements. We advertise through our own websites and also on China's leading portals. We also have advertising arrangements with many Chinese national and regional newspapers and other media outlets, including school campus newspapers. In addition, we advertise through local radio stations and other advertisement platforms, including building lobby or elevator LCD displays and outdoor advertisement displays.

Social Events and Activities. We participate in and host community events designed to promote awareness of the virtues of education. We believe that these events enhance our public image and increase brand awareness. We also host English speech competitions, English drama performances and cultural events designed to raise enthusiasm for English language learning and to further promote awareness of our brand.

Cross-Selling. As we gain footholds in many 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 create a brand name that permeates every stage of our potential students' educational, career and life progression, from English for children to English for adults to test preparation to continuing professional education, and to encourage our students to introduce their children to the same system and courses. Outside of our organization, we have established cross-promotional relationships with a number of companies to promote our programs, services and products and awareness of our brand.

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 nationwide competition for our IELTS preparation courses from Global IELTS School, which offers IELTS preparation courses in many cities in China. We face regional competition for our English for children program from several competitors that focus on children's English language training in specific regions, including English First. We face limited competition from many competitors that focus on providing international and/or PRC test preparation courses in specific geographic markets in China. We also face competition from companies that focus on providing after-school tutoring services, including TAL Education Group and Xueda Education Group.

We believe that the principal competitive factors in our markets include the following:

brand recognition;

overall student experience;

ability to effectively market programs, services and products to a broad base of prospective students; and

scope and quality of program, service and product offerings.

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 student preferences in these markets.

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The increasing use of the internet and advances in internet- and computer-related technologies, such as web video conferencing and online testing simulators, are eliminating geographic and cost-entry barriers to providing private educational services. As a result, many of our international competitors that offer online test preparation and language training courses may be able to more effectively penetrate the China market. Many of these international competitors have strong education brands, and students and parents in China may be attracted to the offerings of our international competitors based in the country that the student wishes to study in or in which the selected language is widely spoken. In addition, many smaller companies are able to use the internet to quickly and cost-effectively offer their programs, services and products to a large number of students with less capital expenditure than previously required.

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 courses tend to have the largest student enrollments in our first fiscal quarter, which runs from June 1 to August 31 of each year, primarily because many students enroll in our courses during the summer vacation to enhance their foreign language skills and/or prepare for admissions and assessment tests in subsequent school terms. In addition, we have generally experienced larger student enrollments in our third fiscal quarter, which runs from December 1 to February 28 of each year, primarily because many students enroll in our language training and other courses during the winter school holidays. We expect quarterly fluctuations in our revenues and results of operations to continue.

Regulation

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 General Administration of Press and Publication, or GAPP, the Ministry of Industry and Information Technology, or the MIIT, the SAIC, the Ministry of Civil Affairs and their respective authorized local counterparts.

Regulations on Private Education

The principal regulations governing private education in China consist of the Education Law of the PRC, the Law for Promoting Private Education (2003), as amended, and the Implementation Rules for the Law for Promoting Private Education (2004), and the Regulations on Chinese-Foreign Cooperation in Operating Schools. Below is a summary of the relevant provisions of these regulations.

Education Law of the PRC

The National People's Congress enacted the Education Law of the PRC, or the Education Law, most recent amendment effective on June 1, 2016. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school system of pre-school education, primary education, secondary education and higher education, a system of nine-year compulsory education and a system of education certificates. The Education Law stipulates that the government should formulate plans for the development of education and establish and operate schools and other institutions of education, and that in principle, enterprises, social organizations and individuals are encouraged to operate schools and other types of educational organizations in accordance with PRC laws and regulations. However, no organization or individual may establish or operate a school or any other institution of education for profit-making purposes, though private schools may be operated for reasonable returns, as described in

more detail below.

On December 27, 2015, the National People's Congress amended the Education Law of the PRC, which became effective on June 1, 2016. The amended Education Law of the PRC, among other things, deleted the restrictions on organization or individual establishing or operating a school or any other institution of education for profit-making purposes, and added a requirement that the schools and other institution of education which are established with governmental fund or donated assets may not establish profit-making institutions of education.

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The Law for Promoting Private Education (2003) and the Implementation Rules for the Law for Promoting Private Education (2004)

Under the Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education, private schools are defined as schools established by social organizations or individuals using non-government funds. In addition, private schools providing certifications, pre-school education, education for self-study aid and other academic education shall be subject to approval by the education authorities, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labor and social welfare. A duly approved private school will be granted a Permit for Operating a Private School, and shall be registered with the Ministry of Civil Affairs or its local counterparts as a privately run non-enterprise institution. Each of our non-profit private schools which is formed as privately run non-enterprise institutions has obtained the Permit for Operating a Private School and has been registered with the relevant local counterpart of the Ministry of Civil Affairs.

Under the above regulations, private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. Government-run schools that provide compulsory education are not permitted to be converted into private schools. In addition, the operation of a private school is highly regulated. For example, the types and amounts of fees charged by a private school providing certifications shall be approved by the governmental pricing authority and be publicly disclosed. A private school that does not provide certifications shall file its pricing information with the governmental pricing authority and publicly disclose such information. Except for our primary and secondary school in Yangzhou and a private secondary school in Beijing, which provide graduation certifications to students, none of the schools operated by New Oriental China provides a diploma or certification to students.

Private education is treated as a public welfare undertaking under the regulations. 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 schools are 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.

The election to establish a private school requiring reasonable returns shall be provided in the articles of association of the school. The percentage of the school's annual net balance that can be distributed as reasonable return shall be determined by the school's board of directors, taking into consideration the following factors: (1) items and criteria for the school's fees, (2) the ratio of the school's expenses used for educational activities and improving the educational conditions to the total fees collected, and (3) the admission standards and educational quality. The relevant information relating to the above factors shall be publicly disclosed before the school's board determines the percentage of the school's annual net balance that can be distributed as reasonable returns. Such information and the decision to distribute reasonable returns shall also be filed with the approval authorities within 15 days from the decision made by the board. However, none of the current PRC laws and regulations provides a formula or guidelines for determining reasonable returns. In addition, none of the current PRC laws and regulations sets forth different requirements or restrictions on a private school's ability to operate its education business based on such school's status as a school that requires reasonable returns or a school that does not require reasonable returns.

On November 7, 2016, the Standing Committee of the National People's Congress promulgated the amended Law for Promoting Private Education, or 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, and sponsors of private school may choose to establish non-profit or for-profit private schools at their own discretion. Nevertheless, school

sponsors are not allowed to establish for-profit private schools that are engaged in mandatory education according to the Amended Private Education Law. Therefore, schools engaged in mandatory education must retain their non-profit status after the effectiveness of the Amended Private Education Law.

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The Amended Private Education Law further establishes a new classification system for private schools on whether they are established and operated for profit-making purposes. Key features of this system include the following:

sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law and other relevant laws and regulations, 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;

for-profit private schools are entitled to set their own tuition and other miscellaneous fees without seeking prior approval from or reporting to the relevant government authorities. whereas the collection of fees by non-profit private schools shall be regulated by the provincial, autonomous regional or municipal governments;

private schools (for-profit and non-profit alike) may enjoy preferential tax treatments; non-profit private schools will be entitled to the same tax benefits as public schools whereas taxation policies for for-profit private schools are still unclear as more specific provisions are yet to be introduced;

for construction or expansion of the school, non-profit schools may acquire the required land use rights in the form of allocation by the government as a preferential treatment, whereas for-profit private schools shall acquire the required land use rights by purchasing them from the government;

the remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of non-profit schools, whereas the remaining assets of for-profit private schools shall be distributed to the sponsors in accordance with the PRC Company Law; and

governments at or above the prefecture level may support private schools (for-private and non-private alike) by subscribing to their services, providing student loans and scholarships, and leasing or transferring unused state assets to the schools, and the governments may further support non-profit private 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, which require to ease the 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 SAIC, the Ministry of Human Resources and Social Welfare and the State Commission Office of Public Sectors Reform jointly issued the Implementation Rules on the

Classification Registration of Private Schools to reflect the new classification system for private schools as set out in the 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 conduct financial liquidation process, have the property rights of its assets such as lands, school buildings and net balance being authenticated by relevant government authorities, pay up relevant taxes, apply for a new Permit for Operating a Private School, re-register as for-profit schools and continue its operation. Specific provisions regarding the above registration process are yet to be introduced by governments at the provincial level.

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

Besides the Amended Private Education Law and the above regulations, other details of the requirements on the operation of non-profit schools and for-profit schools will be provided in implementation regulations that are yet to be introduced, such as

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an amendment to the Implementation Rules for the Law for Promoting Private Education;

local regulations relating to legal person registration of for-profit and non-profit private schools; and

specific measures to be formulated and promulgated by the competent authorities in the province(s) in which our schools are located, including specific measures for registration of pre-existing private schools and the collection of non-profit private schools' fees, specific requirements for authenticating various parties' property rights of for-profit private schools, taxation policies for for-profit private schools.

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 the annual net income of the school, while in the case of a private school that does 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. As of May 31, 2017, 22 of our schools elected as schools not requiring reasonable returns, 39 of our schools elected as schools requiring reasonable returns, and the remaining schools are not classified or registered as companies. Preferential tax treatments granted to our schools by governmental authorities are subject to review and may be adjusted or revoked at any time in the future.

Sponsorship of Private Schools

Under the Law for Promoting Private Education and the Implementation Rules for Promoting Private Education, entities and individuals that establish private schools are referred to as sponsors. As of May 31, 2017, New Oriental China was the sponsor of 77 schools.

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, 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, 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 and the Implementation Rules for Promoting Private Education, 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.

We are 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. According to our PRC counsel, there is 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 are 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 are 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 counsel 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 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.

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Regulations on Chinese-Foreign Cooperation in Operating Schools

Chinese-foreign cooperation in operating schools or training programs is specifically governed by the Regulations on Operating Chinese-Foreign Schools, promulgated by the State Council in accordance with the Education Law of the PRC, the Occupational Education Law and the Law for Promoting Private Education, and the Implementation Rules for the Regulations on Operating Chinese-Foreign Schools. The Regulations on Operating Chinese-foreign Schools and its implementation rules encourage substantive cooperation between overseas educational organizations with relevant qualifications and experience in providing high-quality education and Chinese educational organizations to jointly operate various types of schools in the PRC, with such cooperation in the areas of higher education and occupational education being encouraged. Chinese-foreign cooperative schools are not permitted, however, to engage in compulsory education and military, police, political and other kinds of education that are of a special nature in the PRC.

Permits for Chinese-Foreign Cooperation in Operating Schools shall be obtained from the relevant education authorities or the authorities that regulate labor and social welfare in the PRC. We have not applied for a Permit for Chinese-Foreign Cooperation in Operating Schools at this stage since we currently do not have Chinese-foreign Cooperation Schools.

Foreign-Investment Industrial Guidance Catalog (2017)

According to applicable PRC regulations on foreign-invested enterprises, capital contributions from a foreign holding company to its PRC subsidiaries, which are considered foreign-invested enterprises, may only be made when approval by the Ministry of Commerce or its local branch has been obtained. In approving such capital contributions, the Ministry of Commerce or its local branch examines the business scope of each foreign invested enterprise under review to ensure it complies with the Foreign-Investment Industrial Guidance Catalog, which classifies industries in China into three categories, namely encouraged foreign investment industries, restricted foreign investment industries and prohibited foreign investment industries. Industries not listed in the Foreign-Investment Industrial Guidance Catalog are generally open to foreign investment unless specifically restricted by other PRC regulations. On June 28, 2017, a new Foreign-Investment Industrial Guidance Catalog was issued to become effective on July 28, 2017 and to replace the previous one issued in 2015.

Under such Foreign Investment Catalog, foreign investment is encouraged in non-academic vocational training institutions. Preschool education, senior high school education in grades 10 to 12, and higher education are in a restricted industry, meaning foreign educational organizations with relevant qualifications and experience and Chinese educational organizations are only allow to operate preschool education, senior high schools and higher education 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. Foreign investment is allowed in after-school tutoring services and training services which do not grant certificates or diplomas.

The Draft PRC Foreign Investment Law

In January 2015, the Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the standard of actual control in determining whether a company is considered a foreign-invested enterprise, or an FIE.

The draft Foreign Investment Law specifically provides that entities established in China but controlled by foreign investors must be deemed as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the Ministry of Commerce, treated as a PRC domestic investor provided that the entity is controlled by PRC entities and/or citizens. In this connection, control is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% or more of the voting rights or similar equity interest of the subject entity; (ii) holding less than 50% of the voting rights or similar equity interest of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exert material influence on the board, the shareholders meeting or other equivalent decision making bodies; or (iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. Once an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a negative list, to be separately issued by the State Council in the future and to replace the Foreign-Investment Industrial Guidance Catalog, market entry clearance by the Ministry of Commerce or its local counterparts will be required. Otherwise, all foreign investors may make investments on the same terms as domestic investors without being subject to additional approval from the government authorities as mandated by the existing foreign investment legal regime.

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Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately controlled by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the negative list, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the negative list without market entry clearance may be considered as illegal. However, the draft Foreign Investment Law has not taken a position on what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by PRC parties, while it has solicited comments from the public on this point.

The draft Foreign Investment Law also imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Some of the information requested may be sensitive to foreign investors, such as the identity of the actual controller and the source of investment. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

Regulations on Online and Distance Education

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

Setting up education websites and online education schools was subject to approval from relevant education authorities, depending on the specific types of education. Any education website and online education school had to, upon the receipt of approval, indicate on its website such approval information as well as the approval date and file number.

According to the Administrative License Law promulgated by the Standing Committee of the National People's Congress, only laws promulgated by the National People's Congress and regulations and decisions promulgated by the State Council may set down administrative license. Furthermore, the State Council promulgated the Decision on Setting Down Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to be Retained, in which the administrative license for online education schools was retained, while the administrative license for educational websites was not retained. In January 2014, the State Council promulgated the Decision to Cancel or to Delegate another Batch of Administrative Approval Items to Lower Level, in which the administrative license for online education schools was cancelled for higher education. On February 3, 2016, the State Council promulgated the Decision of State Council to Cancel the Second Batch of Administrative Approval Items (152 Items) that Delegated to Lower Level, in which the administrative license for online education schools and educational websites were cancelled.

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Regulations on Publishing and Distribution of Publications

The State Council promulgated the Administrative Regulations on Publication, 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. In addition, according to the effective Foreign Investment Industrial Guidance Catalog, foreign investors are prohibited from engaging in the publishing business. Therefore, our subsidiaries and New Oriental China and its schools and subsidiaries are not permitted to engage in the publishing business under this regulation. 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 self-developed teaching materials and other content.

According to the prior Measures for the Administration of Internal Informative Publications, entities engaging in printing internal informative publications may obtain an internal informative publications printing permit instead of the permit of publishing. Such internal informative publications are defined as publications used for internal information communication and work guidance purpose and are not for sale. In April 2015, the current Measures for the Administration of Internal Informative Publications took effect and abolished the prior measures. Under the new regulation, the internal informative publications printing permit is not available for printing and publishing of textbooks and teaching materials for primary and secondary school students. In addition, the new regulation prohibits entities which have obtained the internal permit from offering the internal informative publications to its client or to the public. 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 publishing activities. If the GAPP 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.

GAPP issued new Administrative Regulations on Publications Market, effective on June 1, 2016, abolished the old regulation. According to the new regulation, any organization or individual engaged in whole sale or retail of publications shall obtain a Permit for Operating Publications. Distribution of publications in the PRC is regulated on different administrative levels. An entity engaged in wholesaling of publications shall obtain such permit from the provincial counterpart of GAPP; and an entity engaged in retail distribution of publications shall obtain such permit from the local counterpart of GAPP at the county level. According to the new regulation, foreign-invested enterprises are allowed to engage in the business of distribution of publications. Foreign investors who intends to establish an enterprise engaging in the business of distribution of publications and foreign-invested enterprise which intends to engage in the business of distribution of publications shall firstly obtain the approval from local branch of the Ministry of Commerce. If and upon approval, the Ministry of Commerce will issue the Approval Certificate for Foreign-Invested Enterprises, on which the business scope of distribution of publications is specified along with the word subject to the permission in this industry. Afterwards, the foreign-invested enterprise shall file with its business scope of distribution of publications local office of the SAIC and shall obtain the Permit for Operating Publications Business from relevant offices of the GAPP before engaging in the business of distribution of publications.

In addition, pursuant to the Administrative Regulations on Publishing Audio-Video Products promulgated by the State Council on December 25, 2001, which became effective as of February 1, 2002, any entity engaged in the wholesale or retail distribution of audio-video products was required to secure a Permit for Operating Audio-Video Products from

the relevant culture authorities.

The Administrative Regulations on Publishing Audio-Video Products was later amended in 2011, 2013 and was most recently amended on January 2, 2016, pursuant to which the Permit for Operating Audio-Video Products was replaced by the Permit for Operating Publications and entities or individuals engaging in distribution of audio-video products shall only need to hold a Permit for Operating Publications Business, while a Permit for Publishing Audio-Video Products shall no longer be needed.

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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. During the term of the above-mentioned permits or licenses, GAPP 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 Online Publications

GAPP and the MIIT jointly promulgated the Regulations on the Administration of Internet Publishing Services, or the Internet Publishing Regulations, which took effect on March 10, 2016. The Internet Publishing Regulations require Online Publishing to obtain approval from competent administrative department for publication. The term Online Publishing Service is defined as activities of providing the public through information networks with digitized works which have the publishing features such as editing, producing and processing.

Xuncheng Network, a subsidiary of New Oriental China engaging in internet content services, received verbal confirmation from GAPP that the online content services that Xuncheng Network provides does not fall within the scope of Internet Publishing that requires approval or a license from GAPP. Obtaining an online publication license requires certain conditions, including having five or more qualified editors, which Xuncheng Network cannot satisfy. However, because there is no further official or publicly available interpretation of Internet publishing, we cannot assure you that Xuncheng Network will not be required to obtain an online publication license in the future.

Regulations on Consulting Services for Overseas Studies or Other Overseas Visits for Private Matters

The Ministry of Public Security and SAIC jointly issued the Administrative Measures on Intermediate Activities relating to Entry and Exit for Private Purpose on June 6, 2001, which requires that any entity engaged in intermediate and consulting services for Chinese citizens going abroad to visit families, relatives or friends, to reside abroad, to inherit properties, or to conduct other non-business matters other than studying, working or touring, shall obtain a license granted by the relevant provincial authority on public security.

With respect to intermediate and consulting business activities relating to self-funded overseas studies, the Education Commission of Beijing and Beijing Administration for Industry and Commerce jointly issued the Beijing Measures of Supervisions and Recognition of Intermediate Services for Self-Funded Overseas Studies (Trial) in September 2015, which require that any intermediate service organization engaged in such services in Beijing shall satisfy certain requirements set up therein, including having employees with experience in educational services, having established stable and cooperative relations with an overseas educational institution, and having sufficient funds to protect the rights and interests of customers. The intermediate service organizations which satisfy such requirements may apply with the Education Commission of for the Recognition on the Intermediate Service Organization for Self-funded Overseas Studies. Organizations or individuals without such Recognition from the Education Commission of Beijing are not allowed to engage in any intermediate and consulting business activities relating to self-funded overseas studies.

On January 12, 2017, the State Council promulgated the Decision of the State Council on the Third Installment of the Cancellation of the Administrative Licensing Matters Delegated to Local Governments, which, among other things, cancelled the Recognition on the Intermediate Service Organization for Self-funded Overseas Studies, which means that the requirement for intermediate service organizations to obtain Recognition on the Intermediate Service

Organization for Self-funded Overseas Studies from the provincial government for their engaging in intermediate and consulting business activities relating to self-funded overseas studies is cancelled. This Decision provided that after the cancellation of such requirements, the MOE and the SAIC shall study and develop contract template for reference and strengthen their guidance, regulating and service to intermediate service organizations and that the relevant industrial association shall play their role in self-discipline.

Table of Contents***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) (the Guidelines) in July 2014. Under the Guidelines, overseas study tours participated in by primary and middle school students (the Overseas Study Tour) 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 on Tourism

Tourism Law of the PRC, which was promulgated by the Standing Committee of the NPC and most recently amended on November 11, 2016, 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 promulgated by the State Council, revised on February 6, 2016, and the implementation rules of Regulations on Travel Agencies, provide that, among other things, travel agent shall mean any entity that engages in the business of attracting, organizing, and receiving tourists, providing tourism services for tourists and operating domestic, outbound or border tourism; the aforementioned business shall include but not limit to arranging for transport services, arranging for accommodation services, providing services for tour guides or team leaders, providing services of tourism consultation and tourism activities design. According to the Regulations on Travel Agencies and its implementation rules, any tourism agent engages in 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 Tour shall be organized by a qualified travel agent. Beijing New Oriental Walkite International Travel Co., Ltd, a subsidiary of the Company engaging the businesses of outbound tourism has obtained the aforementioned permit.

Regulations on Value-added Telecommunications Services

Under the PRC Telecommunications Regulations, 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 categorize all telecommunication services in China as either basic telecommunications business or value-added telecommunications business. Internet information services and the business of online data transaction processing are two of the subsectors of the value-added telecommunications business.

As a subsector of the value-added telecommunications business, business of online data transaction processing refers to the business to provide online data processing and transaction processing services through public communication network or Internet for users through various data/transaction application platform connected to the public communication network or Internet, including transaction processing services, electronic data exchange services and network or electronic equipment data processing services. Under the PRC Telecommunications Regulations, any entity engages in the business of transaction processing services as an online marketplace platform is required to obtain a license from the MITT or its provincial authorities in providing transaction processing services.

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As a subsector of the value-added telecommunications business, Internet information services are also regulated by the Administrative Measures on Internet Information Services 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. Xuncheng Network has obtained the ICP license.

The Notice on Strengthening Management of Foreign Investment in Operating Value-Added Telecom Services issued by the MIIT prohibits PRC Internet content providers from leasing, transferring or selling their ICP licenses or providing facilities or other resources to any illegal foreign investors. The notice states that PRC Internet content providers should directly own the trademarks and domain names for websites operated by them, as well as servers and other infrastructure used to support these websites.

Regulations on Internet Culture Activities

The Ministry of Culture of the PRC promulgated the Internet Culture Administration Tentative Measures, or the Internet Culture Measures, on May 10, 2003, which became effective on July 1, 2003, and which were amended on July 1, 2004 and April 17, 2011. 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.

Xuncheng Network, a subsidiary of New Oriental China engaging in the distribution of certain audio-visual products through the Internet, obtained Internet culture business operations license from Beijing Municipal Bureau of Culture on October 18, 2012.

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

The Rules for Administration of Broadcasting of Audio-Video Programs through the Internet and Other Information Networks, or the Broadcasting Rules, promulgated by the State Administration of Radio, Film and Television, or SARFT, apply to the activities of broadcasting, integration, transmission, downloading of audio-video programs with computers, televisions or mobile phones as the main terminals and through various types of information networks. Pursuant to the Broadcasting Rules, a Permit for Broadcasting Audio-video Programs via Information Network is required to engage in these Internet broadcasting activities. The State Council announced a policy on private investments in businesses in China that relate to cultural matters, which prohibits private investments in businesses relating to the dissemination of audio-video programs through information networks.

The SARFT and MIIT issued the Internet Audio-Video Program Measures, revised in August, 2015. Among other things, the Internet Audio-Video Program Measures stipulate that no entities or individuals may provide Internet audio-video program services without a license for disseminating audio-video programs through information network issued by SARFT or its local counterparts or completing the relevant registration with SARFT or its local counterparts and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transfer to the public through the Internet, of audio-video programs, and the

provision of audio-video program uploading and transmission services. The SARFT promulgated the Notice on Several Issues regarding the license for disseminating audio-video programs through information network in 2009. The Notice restates the necessity of applying for such license and sets forth the legal liabilities for those providing Internet audio-video program services without the license. Xuncheng Network, a subsidiary of New Oriental China engaging in online education services, obtained the license for disseminating audio-video programs through information network from SARFT in January 2010.

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On April 25, 2016, the SAPPRFT promulgated the Private Network and Directional Broadcasting Audio-Video Programs Regulations, which came into effect on June 1, 2016 and replaced the Broadcasting Rules. The Broadcasting Audio-Video Programs Regulations provides, among other things, that a Permit for Broadcasting Audio-Video Programs via Information Network is required for engaging in broadcasting services through private network and directional communication. According to such Regulations, the Broadcasting Services through Private Network and Directional Communication shall mean the services and activities provided to the public through the private transmission channels that include internet, LAN and VPN based on Internet and through the receiving terminals of televisions, and other handheld electronic equipment, and such services and activities include the activities of content supply, integrated broadcast control, transmission and distribution with IPTVs, private-network mobile televisions, internet televisions. According to such Regulations, only the entities wholly or substantially owned by the State could apply for such Permit.

Regulations on Protection of the Right of Dissemination through Information Networks

The Regulations on Protection of the Right of Dissemination through Information Networks, promulgated by the State Council, require that every organization or individual who disseminates a third party's work, performance, audio or visual recording products to the public through information networks shall obtain permission from, and pay compensation to, the legitimate copyright owner of such products, unless otherwise provided under relevant laws and regulations. The legitimate copyright owner may take technical measures to protect his or her right of dissemination through information networks and any organization or individual shall not intentionally avoid, destroy or otherwise assist others in avoiding such protective measures unless permissible under law. This regulation also provides that permission from and compensation for the copyright owner are not required in the event of limited dissemination to teaching or research staff for the purpose of school teaching or scientific research only.

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 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 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the National Copyright Administration and the MIIT jointly promulgated the Administrative Measures for Copyright Protection Related to the Internet.

Trademark. The PRC Trademark Law, most recently revised in May 2014, protects the proprietary rights to registered trademarks. The Trademark Office under SAIC handles trademark registrations and grants a term of ten years to registered trademarks and another ten years to trademarks as requested upon expiry of the prior term. Trademark license agreements must be filed with the Trademark Office for record. 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 State Administration for Industry and Commerce 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 New Oriental were recognized as well-known trademarks in a civil action adjudicated by the Intermediate People's Court of Jilin City, Jilin Province and an adjudication on disputed registered trademark issued by trademark appraisal committee.

Domain names. Internet domain name registration and related matters are primarily regulated by (i) the Implementation Rules on Registration of Domain Names issued by China Internet Network Information Center, or CNNIC, (ii) the Measures for Administration of Internet Domain Names of PRC issued by the MIIT, and (iii) the Measures on Domain Name Disputes Resolution for the PRC Internet issued by the CNNIC. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. We have registered many domain names with CNNIC.

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Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules promulgated in 1996 and amended in 2008 and various regulations issued by SAFE and other relevant PRC government authorities, 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 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, 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 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 the Notice on Reforming the Management Method relating to Conversion of the Capital Contribution of Foreign Invested Company from Foreign Exchange to Renminbi, or SAFE Circular 19, effective in June 2015 to abolish SAFE Circular 142 but the foregoing rules have been retained in SAFE Circular 19. SAFE promulgated the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, effective in June 2015, pursuant to which annual foreign exchange inspection of direct investment is not required anymore and the registration of existing equity is required. SAFE Circular 13 also grants the authority to banks to directly examine and process foreign exchange registration with respect to both domestic and overseas direct investment. SAFE issued Notice on reform and regulations of the Administration Policy of Foreign Exchange under Capital Account, or SAFE Circular 16, effective June 9, 2016. Pursuant to SAFE Circular 16, enterprises registered in China may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis which applies to all enterprises registered in China. SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, while such converted Renminbi shall not be provided as loans to its non-affiliated entities. As SAFE Circular 16 is newly issued and SAFE has not provided detailed guidelines with respect to its interpretation or implementations, it is uncertain how these rules will be interpreted and implemented.

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, 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, 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 a company outside of China with the domestic or overseas assets or equity they legally hold for the purpose of investment and financing and conducting roundtrip investment in China. Such a company located outside of China is referred to as an offshore special purpose vehicle.

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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:

Wholly Foreign-Owned Enterprise Law (1986), as amended;

Wholly Foreign-Owned Enterprise Law Implementing Rules (1990), as amended;

Sino-foreign Equity Joint Venture Enterprise Law (1979), as amended; and

Sino-foreign Equity Joint Venture Enterprise Law Implementing Rules (1983), as amended.

Under these regulations, wholly foreign-owned enterprises and Sino-foreign equity joint ventures in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Additionally, these foreign-invested enterprises are required to set aside certain amounts of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends.

Regulations on Offshore Lending

On November 19, 2012, the SAFE promulgated the Circular regarding Further Improvement and Adjustment of Policies on Foreign Exchange Administration of Direct Investment, or Circular 59, which aims to simplify foreign exchange administration procedures concerning inbound and outbound direct investment. Pursuant to Circular 59, foreign invested enterprises are permitted to make loans to its offshore parent company provided that the amount of the lending is not greater than the sum of the distributed but unremitted profits and the proportionate undistributed profits.

Regulations on Labor

Pursuant to the PRC Labor Law, the PRC Labor Contract Law and its Implementing Regulations of the Employment Contracts Law, 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.

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In the respect of the employment of foreigner in PRC, Provision on the Employment of Foreigners in China provides that, among other things, to employ a foreigner who does not have Chinese nationality, an employer shall apply for an employment license for such foreigner, and may only employ him or her after such foreigner obtains a Foreigners Employment License of the People's Republic of China, or Employment License; prior to obtaining employment in China, a foreigner shall enter China with an employment visa (or in accordance with an agreement on mutual exemption of visas if there is such an agreement); and after entering China, such foreigner shall obtain an Employment Permit for Foreigners, or Employment Permit, and a residence permit for foreigners, save that the foreigners holding the Foreign Expert Permit issued by the State Administration of Foreign Experts Affairs are not required to hold Employment Licenses and Employment Permit. Provision on the Employment of Foreigners in China also provides that the Employment License is valid only in the area defined by the authority which issued such license; the actual employer of a foreigner shall be consistent with the employer recorded on the Employment License; if the actual employer changed but the foreigner is employed in a similar job by another employer within the same area defined by the authority which issued such license, the foreigner shall file with such authority to change information on the Employment License.

The Notice of Issues Related to the Management of Employment of Foreigners 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.

In the respect of hiring foreigners as teachers in schools, State Administration of Foreign Experts Affairs, promulgated a Notice of Issuing Regulations for Foreign Experts to Apply Permit to Work in China and Other Regulations, or SAFEA Circular 139. SAFEA Circular 139 provides that foreign experts shall obtain Foreign Expert Permit. Any foreign expert that apply the Foreign Expert Permit shall obey the laws and regulations of PRC, shall be healthy, shall have no criminal record, and shall meet one of the following requirement: (i) such foreign expert is employed to work in China in order to perform agreements between governments or international organizations, or to perform economic or trade agreements between Chinese party(s) and foreign party(s) as a professional person with foreign nationality who has technology or management skills; (ii) such foreign expert is employed to perform the work in the fields of education, scientific research, press, publication, culture, arts, health, or sport as a professional person with foreign nationality; (iii) such foreign expert is employed to perform a position higher than vice president of a domestic enterprise or equivalent position as a professional person with foreign nationality who has technology or management skills; (iv) such foreign expert is a representative with foreign nationality, who is a PRC representative officer of a experts association or recruitment agent approved by State Administration of Foreign Experts Affairs; or (v) such foreign expert is employed to perform the work in the fields of economy, technology, engineering, trade, finance, accounting, tax, tourism who possesses specialty as a professional person with foreign nationality in urgent need with technology or management skills. According to SAFEA Circular 139, to apply a Foreign Expert Permit as a foreign expert to perform the work in the field of education, the applicant shall submit the application together with a copy of the employer's Certificate of Employing Foreign Experts and the agreement entered by such applicant and its employer to the provincial Administration of Foreign Experts Affairs where the employer located, provided that if the employer is the ministry, commission directly under the State Council, the authority directly under the State Council, the public institution or the professional corporation, the applicant shall submit the application to the State Administration of Foreign Experts Affairs. SAFEA Circular 139 also provides that entity shall obtain Certificate of Employing Foreign Experts to employ foreign experts and the application of Certificate of Employing Foreign Experts shall submit to the provincial Administration of Foreign Experts Affairs where the employer located, provided that the non-educational public institution located in Beijing that is directly under the ministry, commission of the State Council, the authority directly under the state council, the application shall submit to the State Administration of Foreign Experts Affairs. According to SAFEA Circular 139, the Administration of Foreign Experts Affairs will carry out annual inspection on the entity that has obtained Certificate of Employing Foreign Experts in January of each year.

In addition, State Administration of Foreign Experts Affairs promulgated an Opinion on Further Regulating the Employment of Foreign Experts in Education and Culture, which provides that, among other things, any entity that dispatches and introduce foreign experts in education and culture to work in China shall obtain Certificate of Employing Foreign Experts; the entity that dispatches the foreign experts, the dispatched foreign expert and the entity that employs the dispatched expert shall enter into an agreement to confirm each party's obligations and rights related to the employment of such foreign expert, and the entity that dispatches the foreign expert and the entity that employs the foreigner expert shall have the joint liability in the management of such foreign expert. Such Opinion on Further Regulating the Employment of Foreign Experts in Education and Culture also provides that any entity that engages in dispatching foreign expert in education and culture with Certificate of Employing Foreign Experts shall not introduce foreign experts working in the entity that without Certificate of Employing Foreign Experts, the provincial and regional Administration of Foreign Experts Affairs shall cooperate with the public security authorities and their exit-entry administration divisions to investigate and handle the illegal employment of foreign experts under applicable laws.

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On February 19, 2016, the State Council promulgated the Decision of the State Council on the Second Installment of the Cancellation of the Administrative Licensing Matters Delegated to Local Governments, which among other things, cancelled Certificate of Employing Foreign Experts, which means that the requirements for the entity to obtain Certificate of Employing Foreign Experts for employing foreign experts from the provincial Administration of Foreign Experts Affairs is cancelled. According to a Q&A in relation to the cancellation of the requirement to obtain Certificate of Employing Foreign Experts in employing foreign experts publicized by the Education, Culture, Health Experts Department of State Administration of Foreign Experts Affairs on March 31, 2016, the provincial education authorities shall pay close attention to the study the necessity of setting up the requirements for qualification in employing foreign experts in their area, and set up the requirements through the development of local laws and temporary regulations if necessary. As of the date of this annual report, we are not aware of any local laws and temporary regulations was set up regarding the requirements to obtaining Certificate of Employing Foreign Experts for employing foreign experts.

According to the Circular on the Comprehensive Implementation of the Permit System for Foreigners to Work in China 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, which supersedes the Employment License or Foreign Expert Permit. The Employment License or Foreign Expert Permit issued before April 1, 2017 remain valid subject to its expiration date. According to the circular, the process of application and approval of the Permit to Working in China will be further simplified and standardized, with new and detailed regulation of the application and approval process of Permit to Working in China to be promulgated shortly. As of the date of this annual report, 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 Ministry of Finance 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.

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, 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 SAFE within three months after the overseas-listed company materially changes its stock incentive plan or make any new stock incentive plans.

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According to SAFE 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. 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. The M&A Rule also contains a provision requiring offshore special purpose vehicles, or SPVs, formed for listing purposes through acquisitions of PRC domestic companies and controlled by PRC individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

The M&A Rule became effective on September 8, 2006 without retroactive effect. Based on the advice of Tian Yuan Law Firm, our PRC counsel, we do not believe that the CSRC approval was required for our listing on the NYSE because trading of our ADSs commenced prior to the effective date of the M&A Rule.

Regulations on Taxation

PRC Enterprise Income Tax. The National People's Congress, the Chinese legislature, passed the EIT Law, effective in 2008. 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 and the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation 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. Any enterprises to be granted with high and new technology enterprises status shall meet certain requirements, including but not limited to the following: (1) the enterprise has incorporated for more than one year before application; (2) the enterprise itself owns the intellectual property right for the core technology of its product or service; (3) the enterprise's core technology of its product or service falls into the ambit of high-tech fields heavily supported by the government; (4) technicians has engaged into research and development account for more than 10% of all the staff; (5) in the latest three financial years (actual operating year if incorporated less than three years), the research and development expenses account for 3%-5% or more of the latest sales revenue and the research and development expenses incurred within China shall not be less than 60% of the total research and development expenses; (6) the revenue in the latest year derived from the high-tech product or service accounts for more 60% of the total revenue; (7) the innovation capability of the enterprise shall meet the relevant evaluation standards; and (8) no major security or qualification incident or sever environmental illegal behavior occurred within the previous year

before application. To apply for the high and new technology enterprises status, an enterprise shall file its corporate certificates and supporting documents evidencing the requirements to the relevant government authority. The government authority will examine the filed certificates and documents to determine whether the enterprise meets the high and new technology enterprises requirements. If the decision is positive, the authority will make a public announcement and grant the enterprise with a high and new technology enterprises certificate with a valid term of three years. Upon the expiration of the initial term, the enterprise shall file a new application to obtain such status. Loss of any preferential tax treatments previously granted to us could have a material and adverse effect on our financial condition and results of operations.

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According to the Circular On Several Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry 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, jointly promulgated by the Ministry of Finance and the State Administration of Taxation 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 exempted 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 before December 31, 2017. The qualifications for a software enterprise provided in Circular 27 include the following:

the core business shall be software development;

the enterprise shall be a legal person established after January 1, 2011 and shall be granted the status of a software enterprise;

the enterprise's employees who have at least a junior college degree shall be more than 40% of the average monthly headcount of its total employees of that year, among whom the research and development staff shall be more than 20% of the average monthly headcount of its total employees of that year;

the enterprise shall own core technology and shall base its operation on such core technology, the annual total research and development expenses shall be more than 6% of its total revenue of that fiscal year, among which the research and development expenses incurred in China shall be more than 60% of the total research and development expenses;

the revenue generated from the sale of its software products shall normally be more than 50% of its total revenue (the revenue generated from the sale of embedded software products and integrated information system products shall be more than 40% of its total revenue), among which the revenue generated from the sale of software products developed by such enterprise shall normally be more than 40% of its total revenue (the revenue generated from the sale of embedded software products and integrated information system products shall be more than 30% of its total revenue);

the enterprise shall own intellectual property rights in the technologies used in its core business, among which its software products shall be certified with testing documents issued by a software testing institution recognized by provincial authority in charge of software industry and with Software Product Registration Certificates granted by the authority in charge of software industry;

the enterprise shall possess the means and ability to ensure the quality of the products it designs, and shall have established a quality control system which is fit for software engineering and shall provide the records for the valid operation of such system; and

the enterprise shall possess operation premises and maintain a working environment suitable for software development, and have technical support for the services it provides. In order to be qualified as a software enterprise and be entitled to such preferential treatment, software enterprises are required to submit supporting materials to their respective competent tax authorities within four months from the end of each fiscal year.

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 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.

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Seven of our wholly-owned subsidiaries in China, Beijing Smart Wood, Beijing Joy Tend, Beijing Right Time, Beijing Top, Beijing Shenghe, Beijing Magnificence and Beijing Jinghong, are qualified as software enterprises. Beijing Smart Wood was entitled to an income tax exemption from in 2012 and 2013 followed by reduced income tax at a rate of 12.5% from 2014 through 2016. Beijing Right Time and Beijing Joy Tend were exempt from income taxes in 2013 and 2014 and are eligible for reduced income taxes at a rate of 12.5% from 2015 through 2017. Beijing Top and Beijing Shenghe were exempt from income taxes in 2014 and 2015 and are eligible for reduced income taxes at a rate of 12.5% from 2016 through 2018. Beijing Magnificence is entitled to an income tax exemption in 2015 and 2016 followed by reduced income tax at a rate of 12.5% from 2017 through 2019. Beijing Jinghong is entitled to an income tax exemption in 2017 and 2018 followed by reduced income tax at a rate of 12.5% from 2019 through 2021.

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 State Administration of Taxation 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 State Administration of Taxation 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 State Administration of Taxation 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.

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PRC Withholding Tax. According to the Double Taxation Arrangement (Hong Kong), effective in 2007, the Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates, issued in 2008, and the Notice of the State Administration of Taxation Regarding Interpretation and Recognition of Beneficial Owners under Tax Treaties, effective in 2009, 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). Our wholly-owned Hong Kong subsidiaries, Elite Concept Holdings Limited, Winner Park Limited and Smart Shine International Limited, own 100% 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 Double Taxation Arrangement (Hong Kong). 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 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).

PRC Business Tax and 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 Ministry of Finance and the State Administration promulgated the Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value-Added Tax, or Circular No. 36, effective on May 1, 2016. On June 18, 2016, the Ministry of Finance and the State Administration of Taxation promulgated the Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value-Added Tax in the Policy of Reinsurance, Real Estate Leasehold and Non-degree Education, or Circular No. 68, in which the general taxpayers providing non-academic education services may apply a simple method for calculating the tax payable amount in accordance with the tax rate of 3%.

C. Organizational Structure

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, Beijing Decision, Beijing Pioneer, Beijing Smart Wood, Beijing Joy Tend, Beijing Right Time, Beijing Top, Beijing Shenghe, Beijing Magnificence and Beijing Jinghong. Beijing Hewstone primarily engages in the educational software development business and also sub-licenses our trademarks to New Oriental China and its schools and subsidiaries. Beijing Decision primarily engages in the business of providing educational technology services and educational management services. Each of Beijing Pioneer, Beijing Smart Wood, Beijing Joy Tend, Beijing Right Time, Beijing Top, Beijing Shenghe, Beijing Magnificence and Beijing Jinghong primarily engages in the educational software development business.

In addition, we have a wholly-owned subsidiary in China, Beijing Judgment Education & Consulting Co., Ltd., or Beijing Judgment, which holds the real estate properties on which certain of our schools are located. In September 2016, Beijing Judgment transfer all the equity interest it held in Beijing New Oriental Stars, a holding company for our two kindergartens, to Beijing Bright The Future Education & Technology Co., Ltd., a wholly-owned subsidiary of New Oriental China. Beijing Bright The Future Education & Technology Co., Ltd., also hold the equity interest in three kindergartens in Qingdao.

In 2013, Beijing Hewstone established a wholly-owned subsidiary in China, Beijing Sincerity, which holds our overseas study tour business.

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The following diagram sets out details of our significant subsidiaries and New Oriental China and its schools and subsidiaries as of the date of this annual report:

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 C. Organizational Structure Contractual Arrangements with New Oriental China, its Schools and Subsidiaries and its Shareholder.

- (1) Beijing Century Friendship Education Investment Co., Ltd is 80% owned by Mr. Michael Minhong Yu, our company's founder and executive chairman, and 20% owned by Ms. Bamei Li, Mr. Yu's mother.
- (2) Excluding Guangzhou Panyu Privately-Funded New Oriental Training Center, Guangzhou New Oriental School and Fuyang New Oriental Training School, which are separate legal entities but have been counted to our learning centers from the perspective of our internal management.
- (3) Consisting of various PRC companies operating our educational content and other technology development and distribution business, online education business and overseas studies consulting business in China, including Xuncheng Network. As part of an internal restructuring, we entered into a series of contractual arrangements with Xuncheng Network, its subsidiary and its shareholder during the fiscal year ended May 31, 2015. See C. Organizational Structure Contractual Arrangements with Xuncheng Network, Its Subsidiary and Its Shareholder.

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Contractual Arrangements with New Oriental China, Its Schools and Subsidiaries and Its Shareholder

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 grades 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 contractual arrangements between our wholly-owned subsidiaries in China, and our variable interest entity(ies), their schools and subsidiaries and their shareholders. In the fiscal years ended May 31, 2015, 2016 and 2017, our variable interest entity(ies) contributed in aggregate 97.9%, 97.7% and 98.8%, respectively, of our total net revenues. New Oriental China is our variable interest entity which is directly wholly owned by Century Friendship, a PRC domestic company controlled by Mr. 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:

have power to direct the activities that most significantly affect the economic performance of New Oriental China and its schools and subsidiaries;

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

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.

These contractual arrangements are summarized in the following paragraphs.

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 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.

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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 SAIC. The terms of the April 2012 equity pledge agreements are substantially the same as the 2006 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 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 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 SAIC.

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.

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.

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-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.

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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 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, 2015, 2016 and 2017, 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\$179.5 million, US\$149.3 million and US\$269.2 million, respectively.

Contractual Arrangements with Xuncheng Network, Its Subsidiary and Its Shareholder.

Prior to a series of restructuring transactions starting in October 2015, Xuncheng Network was a wholly-owned subsidiary of New Oriental China. As part of an internal restructuring, we entered into a series of contractual arrangements with Xuncheng Network, its subsidiary and its shareholder during the fiscal year ended May 31, 2015, including an equity pledge agreement, an exclusive option agreement, a power of attorney and a master exclusive service agreement. These agreements are substantially the same as our contractual agreements with New Oriental China and its shareholder. In connection with New Oriental China's entry into the foregoing Xuncheng VIE agreements, Beijing Pioneer, Beijing Hewstone, Beijing Smart Wood, Beijing Decision and Shanghai Smart Words issued confirmation letters acknowledging that the foregoing agreements are effective as provided thereunder. Following a change in our restructuring strategy, the foregoing agreements were terminated in September 2015.

In the opinion of Tian Yuan Law Firm, our PRC legal counsel:

the corporate structure of New Oriental China and its schools and subsidiaries, Xuncheng Network and its subsidiary, and our wholly-owned subsidiaries in China are in compliance with existing PRC laws and regulations; and

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 are valid, binding and enforceable under, and do not violate, PRC laws or regulations currently in effect. The contractual arrangements among our wholly-owned subsidiary in China, Xuncheng Network, its subsidiary and its shareholder were valid, binding and enforceable under, and did not violate, PRC laws or regulations currently in effect prior to their termination.

We have been advised by our PRC legal counsel, 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 counsel. We have been further advised by our PRC counsel 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. The imposition of any of these penalties could result in a material adverse effect on our ability to conduct our business. See Item 3. Key Information D. Risk Factors Risks Related to Our Corporate Structure If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with applicable PRC laws and regulations,

we could be subject to severe penalties and Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Uncertainties with respect to the PRC legal system could adversely affect us.

D. Property, Plants and Equipment

Our headquarters are located in Beijing, China, where we own approximately 19,000 square meters of office and classroom space. In addition, we own approximately 210,000 square meters of schools in Yangzhou and an aggregate of approximately 62,000 square meters of space for our schools, learning centers and bookstores in various cities in China, including Xiamen, Zhengzhou, Xi'an, Tianjin, Kunming, Wuhan, Guangzhou, Changsha and Beijing.

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ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information D. Risk Factors or in other parts of this annual report on Form 20-F.

A. Operating Results

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 private education and English language training in China. The overall economic growth and the increase in the GDP per capita in China have led to a significant increase in spending on education in China. At the same time, China's integration into the global economy has continued, resulting in more career opportunities for Chinese citizens who are able to communicate effectively in English. We anticipate that the demand for private education and English language training in China will continue to increase as China's economy continues to grow and as disposable income of urban households continues to rise. 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.

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 costs and expenses. The number of student enrollments is in turn largely driven by the demand for our courses, the effectiveness of our marketing and brand promotion efforts, our ability to optimize our comprehensive online and offline integrated education ecosystem in a constant basis, the locations of our schools and learning centers, our ability to maintain the consistency and quality of our teaching, and our ability to respond to competitive pressure, as well as seasonal factors. 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.

Our future results of operations will depend significantly upon our ability to increase paying users for our online courses, increase student enrollments at existing schools and learning centers 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.

Due to certain restrictions and qualification requirements under PRC law that apply to foreign investment in China's education industry, we conduct substantially all of our education business in China through contractual arrangements between our wholly-owned subsidiaries in China, New Oriental China and its schools and subsidiaries and the shareholder of New Oriental China. New Oriental China's schools and subsidiaries hold the requisite licenses and permits necessary to conduct our educational services business in China and operate our schools and learning centers and have been directly conducting our education business and operating our schools and learning centers.

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Net Revenues. In the fiscal years ended May 31, 2015, 2016 and 2017, we generated total net revenues of US\$1,246.8 million, US\$1,478.3 million and US\$1,799.5 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%, 88.6% and 89.4% of our total net revenues in the fiscal years ended May 31, 2015, 2016 and 2017, respectively; and

books and others, which accounted for 11.5%, 11.4% and 10.6% of our total net revenues in the fiscal years ended May 31, 2015, 2016 and 2017, respectively.

Educational Programs and Services. Our educational programs and services consist of language training and test preparation courses, primary and secondary school education and online education. Revenues from language training courses and test preparation courses accounted for 83.4%, 83.8% and 83.9%, respectively, of our total net revenues in the fiscal years ended May 31, 2015, 2016 and 2017.

We recognize revenues from course fees collected for enrollment in our language training and test preparation courses 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 revenues. Students are 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 no refunds will be provided and any collected but unearned portion of the fee is recognized at that time. We recognize revenues from school fees collected for enrollment in our primary and secondary schools ratably over the corresponding academic year. We sell pre-paid online education cards primarily to distributors, who in turn sell them to students. We recognize revenues from sales of pre-paid cards in proportion to the actual time that students spend on our online courses. Course fees and school fees collected and amounts received from sales of pre-paid cards are recorded as deferred revenues until they can be recognized as revenues upon their use or expiration. Upon expiration of a prepaid card, which is six months to one year from the date of the sale of the card, we recognize the remaining amount of deferred revenues as revenues.

The most significant factors that directly affect our revenues from educational programs and services are the number of student enrollments and the amount of course fees. We believe our students are attracted to us primarily because of our established brand and reputation in the private education sector, especially in the areas of English language training, overseas admissions and assessment test preparation and K-12 after-school tutoring program, the quality of our instruction and the variety of our programs, services and products. For the past several years, our revenue growth has been driven primarily by increased enrollments in our K-12 after-school tutoring courses and overseas test preparation courses and other programs and services. The number of student enrollments for our courses is affected by the demand for our courses, the effectiveness of our marketing and brand promotion, the demographic composition of the cities where we have schools and learning centers, our ability to respond to competitive pressure, as well as seasonal factors. To further penetrate the K-12 after-school tutoring market, we have expanded the scope of our course offerings to cover non-English subjects, including through our New Oriental U-Can (Non-English) all subjects training program for middle and high school students and Pop Kids (Non-English) all subjects training program for elementary school students, and plan to further expand our course offerings and geographic coverage in the future to capture a larger share of the huge after-school training market in China. In order to use new technology to reshape our traditional offline classroom-teaching offerings and enhance customers' learning experience, we developed our own

O2O two-way interactive learning platform, or the O2O platform, by standardizing and digitalizing our education content and user data. We established a database of learning modules for internet-based self-learning practice and assessment. The O2O platform complements and supports students' offline learning activities by offering online learning components, such as pushing customized content to students, recommending additional courses based on their online study records and performance, facilitating interaction between students, teachers and parents across a variety of devices, including smartphones, tablets and PCs.

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Our courses generally have the largest student enrollments in our first fiscal quarter, which runs from June 1 to August 31 of each year, primarily because many students enroll in our courses during the summer vacation to enhance their foreign language skills and/or prepare for admissions and assessment tests in subsequent school terms. We expect this seasonality in enrollment pattern to continue, especially for most of our language training courses for college and middle school students and test preparation courses.

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 programs. Our test preparation courses are generally delivered in class settings ranging from 1 student to 150 students per class. Our K-12 after-school tutoring courses and our English language training courses are delivered in class settings generally ranging from 1 student to 100 students per class. In November 2013, we launched an online test preparation program on our own online education website koolearn.com, which features live broadcasts of a series of our most popular offline test preparation classes. 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. We expect to continue to derive a substantial majority of our revenues from educational programs and services.

A significant portion of our revenues has been derived from test preparation courses. The success of our test preparation courses depends on the continued use of admissions and assessment tests by educational institutions and governmental authorities both in China and abroad. If the use of admissions and assessment tests declines or falls out of favor with educational institutions, government authorities and other entities, the markets for our test preparation courses will shrink and our business may be materially and adversely affected.

Books and Others. 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.

We also provide consulting services to students regarding overseas studies and related processes, such as visa applications. We charge each student a fee based on the scope of consulting services requested by the student and recognize revenues when our consulting services are delivered. We expect that revenues from these consulting services will continue to increase in the future.

Operating Costs and Expenses. Our operating costs 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 costs and expenses, both in absolute amount and as a percentage of total net revenues for the periods indicated.

<i>(in thousands, except percentages)</i>	For the Year Ended					
	2015		2016		2017	
	US\$	%	US\$	%	US\$	%
Net revenues	1,246,766	100.0	1,478,348	100.0	1,799,509	100.00
Operating costs and expenses:						
Cost of revenues	(526,320)	(42.2)	(614,364)	(41.5)	(749,586)	(41.7)

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Selling and marketing	(188,483)	(15.1)	(197,897)	(13.4)	(232,826)	(12.9)
General and administrative	(378,434)	(30.4)	(471,010)	(31.9)	(554,948)	(30.8)
Total operating costs and expenses	(1,093,237)	(87.7)	(1,283,271)	(86.8)	(1,537,360)	(85.4)

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We rely on our teachers to deliver educational services. 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 is comprised primarily of teaching fees based on hourly rates and performance-linked bonuses based on student evaluations and other factors. To attract and retain high-quality teachers, we have granted equity incentives, including restricted shares and share options, to some of our teachers. 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, and account for the other compensation and benefits to our teachers as general and administrative expenses.

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. 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.

Selling and Marketing Expenses. Our selling and marketing expenses primarily consist of 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, compensation and benefits of full-time teachers excluding teaching fees and performance-linked bonuses and, to a lesser extent, costs to develop curriculum, 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 2006, we adopted the 2006 Share Incentive Plan, under which we are authorized to, starting from 2006, issue up to 8,000,000 common shares pursuant to awards (including options) granted to our employees, directors and consultants. The number of common shares available for grant under the 2006 Share Incentive Plan may be increased by (i) an additional 5,000,000 shares on January 1, 2007, (ii) an additional 5,000,000 shares on January 1, 2008, and (iii) an annual increase in common shares to be added 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 total common shares outstanding as of such date, or (z) a lesser number of shares as determined by the plan administrator. Since the adoption of our 2006 Share Incentive Plan, we have granted options to purchase 15,826,000 common shares, of which 2,277,546 options to purchase common shares had been forfeited under our 2006 Share Incentive Plan. In addition, since the adoption of our 2006 Share Incentive Plan, we have granted a total of 8,608,671 non-vested equity shares under 2006 Share Incentive Plan. Our 2006 Share Incentive Plan expired in January 2016, but the expiration of our 2006 Share Incentive Plan does not affect the effectiveness of options granted prior to such expiration.

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 436,016 non-vested equity shares, all of which were granted in the fiscal year ended May 31, 2017, and of which 4,050 shares had been forfeited as of May 31, 2017.

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, both in absolute amount and as a percentage of total share-based compensation expenses, among our employees based on the nature of work which they were assigned to perform.

<i>(in thousands, except percentages)</i>	For the Year Ended					
	2015		2016		2017	
	US\$	%	US\$	%	US\$	%
Allocation of Share-based Compensation Expenses:						
General and administrative	15,689	100.0	16,810	100.0	20,287	100.0

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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.

In April 2016, we sold 51% equity interest in Beijing Dianshijingwei Technology Co., Ltd, or Dianshijingwei, one of our wholly-owned subsidiaries, to some of Dianshijingwei's management, for a cash consideration of US\$2.3 million, of which US\$1.5 million had been collected as of May 31, 2016, and the remaining consideration was collected in June 2017. We recorded a gain of US\$3.8 million from this disposal. After the disposal, we stopped consolidating Dianshijingwei and started to recognize our remaining investment in Dianshijingwei using the equity method as we retained the ability to exercise significant influence over Dianshijingwei.

Taxation

Cayman Islands

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

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 17% on their respective net revenues. Our operating entities in China used to be subject to a 3% to 5% business tax on gross revenues generated from providing services and related surcharges. According to the then-in-effect Circular 111 and Circular 71 issued by the Ministry of Finance and the State Administration of Taxation on November 11, 2011 and July 31, 2012, respectively, the new enrollment system development services and other operating services provided by Beijing Hewstone, Beijing Decision, Shanghai Smart Words, Beijing Smart Wood and Beijing Pioneer which were previously subject to business tax before the implementation of Circular No. 111 and Circular 71, have since become subject to value-added tax following the implantation of these two circulars. Pursuant to the same, the operating services provided by Beijing Joy Tend and Beijing Right Time, Beijing Top, Beijing Shenghe, Beijing Magnificence and Beijing Jinghong are also subject to value-added tax. On May 24, 2013, the Ministry of Finance and the State Administration of Taxation promulgated Circular 37, which replaces Circular No. 111 and Circular 71 and expands such practice of replacing business tax with value-added tax to nationwide starting August 1, 2013. Following the change from business tax to value-added tax, the applicable tax rate for such services increased by 1%, from 5% up to 6%, while the tax payable amount of value-added tax relating to such services was the output tax amount in a tax period minus input tax amount in the same period. Pursuant to Circular 68 which was promulgated on June 18, 2016, our operating entities that provide non-academic education services are subject to a simple VAT collection method and apply for a 3% VAT rate since May 2016. VAT is reported as a deduction to revenue when incurred. Circular 37 and the subsequent relevant implementation measures and rules are relatively new, and the interpretation and enforcement of this circular and its implementation measures and rules involve uncertainties. To date, the practices instituted under the new circular have had no material adverse effect on the tax positions of our operating entities in China.

With regard to income tax, according 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, however, no regulations have been

promulgated by the relevant authorities in this regard. As of May 31, 2017, 22 of our schools elected as schools not requiring reasonable returns, 39 of our schools elected as requiring reasonable returns and the remaining schools were not classified or registered as companies. The implementation rules of the EIT Law provide certain conditions under which not-for-profit entities may be exempted from enterprise income tax. According to such conditions, our schools may not be entitled to income tax exemption. To date, however, no separate specific regulations or policies have been promulgated by the relevant authorities in this regard and 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 starting from January 1, 2008, 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. Among our schools in the four major cities from which we derived a significant portion of our revenues in the fiscal year ended May 31, 2017, three schools are subject to the standard 25% enterprise income tax rate and one school is not required by the governing tax bureau to pay any EIT since its establishment through May 31, 2017.

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Enterprises that qualify as high and new technology enterprises are entitled to a 15% enterprise income tax rate rather than the 25% uniform statutory tax rate. In December 2008, Beijing Hewstone and Beijing Decision and Xuncheng Network were recertified as high and new technology enterprises in Beijing, and Beijing Pioneer was added to this list in November 2015 and enjoyed a reduced tax rate of 15% starting January 2015. In December 2016, Beijing Smart Wood, was also certified as a high and new technology enterprise. All of them are entitled to a 15% tax rate as long as they continue to qualify as high and new technology enterprises. The deferred tax balance of Beijing Hewstone, Beijing Decision, Beijing Pioneer and Xuncheng Network is calculated at a rate of 15%, as we expect them to continue to be qualified as high and new technology enterprises.

An enterprises that qualifies as a software enterprise is exempt from enterprise income tax for two years beginning from such enterprise's first profitable year followed by a tax rate of 12.5% for the succeeding three years. Seven of our wholly-owned subsidiaries in China, Beijing Smart Wood, Beijing Joy Tend, Beijing Right Time, Beijing Top, Beijing Shenghe, Beijing Magnificence and Beijing Jinghong, are qualified as software enterprises. Beijing Smart Wood was entitled to an income tax exemption from in 2012 and 2013 followed by reduced income tax at a rate of 12.5% from 2014 through 2016. Beijing Right Time and Beijing Joy Tend were exempt from income taxes in 2013 and 2014 and are eligible for reduced income taxes at a rate of 12.5% through from 2015 through 2017. Beijing Top and Beijing Shenghe were exempt from income taxes in 2014 and 2015 and are eligible for reduced income taxes at a rate of 12.5% from 2016 through 2018. Beijing Magnificence is entitled to an income tax exemption in 2015 and 2016 followed by reduced income tax at a rate of 12.5% from 2017 through 2019. Beijing Jinghong is entitled to an income tax exemption in 2017 and 2018 followed by reduced income tax at a rate of 12.5% from 2019 through 2021.

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, New Oriental China and our wholly-owned subsidiaries 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 New Oriental China and our wholly-owned subsidiaries, will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations.

For additional information on PRC regulations on taxation, see Item 4. Information on the Company B. Business Overview Education Regulations on Taxation.

Recent Acquisition

In December 2014, we acquired a 100% equity interest in a kindergarten chain in the city of Qingdao with three schools and approximately 700 students for US\$12.9 million.

In March 2015, we acquired 18% equity interest in Beijing AINUOSHIDA Education & Technology Co., Ltd., or AINUOSHIDA, for a total consideration of US\$1,129. In December 2016, we acquired another 33% equity interest in AINUOSHIDA, for a total consideration of US\$3,842. After the acquisition we owned totally 51% equity interest in AINUOSHIDA.

Recent Disposal

In April 2016, we disposed 51% equity interest in Dianshijingwei for a cash consideration of US\$2.3 million and recorded a gain of US\$3.8 million from this disposal.

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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 annual report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

<i>(in thousands of US\$)</i>	For the Year Ended May 31,		
	2015	2016	2017
Net revenues:			
Educational programs and services	1,102,974	1,309,339	1,608,954
Books and others	143,792	169,009	190,555
Total net revenues	1,246,766	1,478,348	1,799,509
Operating costs and expenses ⁽¹⁾ :			
Cost of revenues	(526,320)	(614,364)	(749,586)
Selling and marketing	(188,483)	(197,897)	(232,826)
General and administrative	(378,434)	(471,010)	(554,948)
Total operating costs and expenses	(1,093,237)	(1,283,271)	(1,537,360)
Gain on disposal of subsidiaries		3,760	
Operating income	153,529	198,837	262,149
Other income, net	66,947	68,447	68,560
Provision for income taxes	(26,221)	(37,531)	(50,624)
Loss from equity method investments	(1,537)	(4,425)	(3,289)
Net income	192,718	225,328	276,796
Net loss (gain) attributable to the noncontrolling interests	295	(444)	(2,339)
Net income attributable to New Oriental Education & Technology Group Inc.	193,013	224,884	274,457

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

<i>(in thousands of US\$)</i>	For the Year Ended May 31,		
	2015	2016	2017
General and administrative	15,689	16,810	20,287

Fiscal Year Ended May 31, 2017 Compared to Fiscal Year Ended May 31, 2016

Net Revenues. Our total net revenues increased by 21.7% from US\$1,478.3 million for the fiscal year ended May 31, 2016 to US\$1,799.5 million for the fiscal year ended May 31, 2017. This increase was due to the increased revenues from both educational programs and services as well as from books and others.

Educational Programs and Services. Net revenues from our educational programs and services increased by 22.9% from US\$1,309.3 million for the fiscal year ended May 31, 2016 to US\$1,608.9 million for the fiscal

year ended May 31, 2017. This increase was primarily due to the growth in revenues from language training and test preparation courses from US\$1,238.6 million in the fiscal year ended May 31, 2016 to US\$1,510.5 million in the fiscal year ended May 31, 2017. The increase in revenues from language training and test preparation courses was mainly attributable to the increase in the number of student enrollments from approximately 3.6 million in the fiscal year ended May 31, 2016 to over 4.8 million in the fiscal year ended May 31, 2017, and in particular, the increased number of student enrollments in test preparation courses for middle and high school students and language training courses for children. Our total numbers of schools and learning centers were 77 and 778, respectively, as of May 31, 2017, compared to 66 and 682, respectively, as of May 31, 2016.

Books and Others. Net revenues from sales of books and other educational materials and services increased by 12.7% from US\$169.0 million in the fiscal year ended May 31, 2016 to US\$190.6 million in the fiscal year ended May 31, 2017, primarily due to the increased revenue of US\$18.8 million from the overseas consulting business in the fiscal year ended May 31, 2017.

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Operating Costs and Expenses. Our total operating costs and expenses increased by 19.8% from US\$1,283.3 million in the fiscal year ended May 31, 2016 to US\$1,537.4 million in the fiscal year ended May 31, 2017. This increase resulted from increases in our cost of revenues, selling and marketing expenses and general and administrative expenses line items.

Cost of Revenues. Our cost of revenues increased by 22.0% from US\$614.4 million in the fiscal year ended May 31, 2016 to US\$749.6 million in the fiscal year ended May 31, 2017. 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, 2017.

Selling and Marketing Expenses. Our selling and marketing expenses increased by 17.7% from US\$197.9 million in the fiscal year ended May 31, 2016 to US\$232.8 million in the fiscal year ended May 31, 2017. This increase was primarily due to the addition of over 500 new sales and marketing personnel during the fiscal year ended May 31, 2017.

General and Administrative Expenses. Our general and administrative expenses increased by 17.8% from US\$471.0 million in the fiscal year ended May 31, 2016 to US\$554.9 million in the fiscal year ended May 31, 2017. This increase was primarily due to an increase of US\$56 million in human resources expenses and an increase of US\$13.2 million in general operational expenses during the fiscal year ended May 31, 2017.

Other Income, Net. Our other income, net which primarily includes interest income, increased from US\$68.4 million in the fiscal year ended May 31, 2016 to US\$68.6 million in the fiscal year ended May 31, 2017.

Provision for Income Tax. Our income tax expense increased by 34.9% from US\$37.5 million in the fiscal year ended May 31, 2016 to US\$50.6 million in the fiscal year ended May 31, 2017. The increase was primarily due to higher income tax rate incurred in the fiscal year ended May 31, 2017.

Net Income. As a result of the foregoing, our net income for the fiscal year ended May 31, 2017 was US\$276.8 million, compared to US\$225.3 million for the fiscal year ended May 31, 2016.

Fiscal Year Ended May 31, 2016 Compared to Fiscal Year Ended May 31, 2015

Net Revenues. Our total net revenues increased by 18.6% from US\$1,246.8 million for the fiscal year ended May 31, 2015 to US\$1,478.3 million for the fiscal year ended May 31, 2016. This increase was due to the increased revenues from both educational programs and services as well as from books and others.

Educational Programs and Services. Net revenues from our educational programs and services increased by 18.7% from US\$1,103.0 million for the fiscal year ended May 31, 2015 to US\$1,309.3 million for the fiscal year ended May 31, 2016. This increase was primarily due to the growth in revenues from language training and test preparation courses from US\$1,040.4 million in the fiscal year ended May 31, 2015 to US\$1,238.6 million in the fiscal year ended May 31, 2016. The increase in revenues from language training and test preparation courses was mainly attributable to the increase in the number of student enrollments from

approximately 2.9 million in the fiscal year ended May 31, 2015 to over 3.6 million in the fiscal year ended May 31, 2016, and in particular, the increased number of student enrollments in test preparation courses for middle and high school students and language training courses for children. Our total numbers of schools and learning centers were 66 and 682, respectively, as of May 31, 2016, compared to 60 and 664, respectively, as of May 31, 2015.

Books and Others. Net revenues from sales of books and other educational materials and services increased by 17.5% from US\$143.8 million in the fiscal year ended May 31, 2015 to US\$169.0 million in the fiscal year ended May 31, 2016, primarily due to the increased revenue of US\$17.5 million from the overseas consulting business in the fiscal year ended May 31, 2016.

Operating Costs and Expenses. Our total operating costs and expenses increased by 17.4% from US\$1,093.2 million in the fiscal year ended May 31, 2015 to US\$1,283.3 million in the fiscal year ended May 31, 2016. This increase resulted from increases in our cost of revenues, selling and marketing expenses and general and administrative expenses line items.

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Cost of Revenues. Our cost of revenues increased by 16.7% from US\$526.3 million in the fiscal year ended May 31, 2015 to US\$614.4 million in the fiscal year ended May 31, 2016. 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, 2016.

Selling and Marketing Expenses. Our selling and marketing expenses by 5.0% from US\$188.5 million in the fiscal year ended May 31, 2015 to US\$197.9 million in the fiscal year ended May 31, 2016. This increase was primarily due to the addition of over 400 new sales and marketing personnel during the fiscal year ended May 31, 2016.

General and Administrative Expenses. Our general and administrative expenses increased by 24.5% from US\$378.4 million in the fiscal year ended May 31, 2015 to US\$471.0 million in the fiscal year ended May 31, 2016. This increase was primarily due to an increase of US\$31.7 million in human resources expenses and an increase of US\$20.3 million in general operational expenses during the fiscal year ended May 31, 2016.

Other Income, Net. Our other income, net which primarily includes interest income, increased from US\$66.9 million in the fiscal year ended May 31, 2015 to US\$68.4 million in the fiscal year ended May 31, 2016.

Provision for Income Tax. Our income tax expense increased by 43.1% from US\$26.2 million in the fiscal year ended May 31, 2015 to US\$37.5 million in the fiscal year ended May 31, 2016. The increase was primarily due to higher income tax rate incurred in the fiscal year ended May 31, 2016.

Net Income. As a result of the foregoing, our net income for the fiscal year ended May 31, 2016 was US\$225.3 million, compared to US\$192.7 million for the fiscal year ended May 31, 2015.

Discussion of Segment Operations

During the year ended May 31, 2015, we identified six operating segments, including language training and test preparation, primary and secondary school education, online education, content development and distribution, pre-school education and overseas study consulting services. During the year ended May 31, 2016, we further separated study tour previously included in the overseas study consulting services as a separate operating segment. The seven operation segments for the years ended May 31, 2016 and 2017 are identified as language training and test preparation, primary and secondary school education, online education, content development and distribution, pre-school education, overseas study consulting services and study tour. Language training and test preparation and primary and secondary school education have been identified as reportable segments. Online education, content development and distribution, pre-school education, overseas study consulting services and study tour operating segments were aggregated as others because individually they do not exceed the 10% quantitative threshold.

Net revenues from our language training and test preparation courses accounted for 83.4%, 83.8% and 83.9%, respectively, of our total net revenues in the fiscal years ended May 31, 2015, 2016 and 2017. Net revenues from our primary and secondary school education accounted for 2.1%, 2.0% and 1.7%, respectively, of our total net revenues in the fiscal years ended May 31, 2015, 2016 and 2017. We recognize revenues from course fees collected for enrollment in our language training and test preparation courses proportionally as we deliver the instruction over the period of the course. We recognize revenues from school fees collected for enrollment in New Oriental China's primary and secondary schools ratably over the corresponding academic year.

Cost of revenues for our language training and test preparation 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.

Cost of revenues for our primary and secondary schools primarily consists of compensation and benefits to school teachers and depreciation and amortization of property and equipment used in the provision of educational services.

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Selling and marketing expenses for each of our reportable segments primarily consist of marketing and promotion expenses and other costs related to our selling and marketing activities for the corresponding reportable segment.

General and administrative expenses for our language training and test preparation courses primarily consist of compensation and benefits of administrative staff of our language training and test preparation courses segment, compensation and benefits, rental and utilities payments relating to office and administrative functions of our language training and test preparation courses segment, depreciation and amortization of property and equipment used in the general and administrative activities of our language training and test preparation courses segment and, to a lesser extent, costs to develop our curriculum. General and administrative expenses for our primary and secondary school education segment primarily consist of compensation and benefits of administrative staff of our primary and secondary schools, depreciation and amortization of property and equipment used in the general and administrative activities of our primary and secondary schools and, to a lesser extent, costs to develop our curriculum.

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

<i>(in thousands of US\$)</i>	For the Year Ended May 31,		
	2015	2016	2017
Net revenues of reportable segments:			
Language training and test preparation courses	1,040,380	1,238,572	1,510,497
Primary and secondary education	26,735	30,011	30,782
Total net revenues of reportable segments	1,067,115	1,268,583	1,541,279
Total net revenues of our company	1,246,766	1,478,348	1,799,509
Operating costs and expenses of reportable segments:			
Cost of revenues:			
Language training and test preparation courses	(442,994)	(516,370)	(623,364)
Primary and secondary education	(9,083)	(9,812)	(10,465)
Selling and marketing:			
Language training and test preparation courses	(122,697)	(125,815)	(146,544)
Primary and secondary education	(1,039)	(744)	(1,347)
General and administrative:			
Language training and test preparation courses	(245,315)	(296,686)	(363,949)
Primary and secondary education	(10,068)	(12,558)	(11,317)
Total operating costs and expenses of reportable segments	(831,196)	(961,985)	(1,156,986)
Total operating costs and expenses of our company	(1,093,237)	(1,283,271)	(1,537,360)

Fiscal Year Ended May 31, 2017 Compared to Fiscal Year Ended May 31, 2016*Net Revenues of Reportable Segments*

Language Training and Test Preparation Courses. Net revenues from our language training and test preparation courses increased by 22.0% from US\$1,238.6 million for the fiscal year ended May 31, 2016 to US\$1,510.5 million for the fiscal year ended May 31, 2017, primarily due to the factors discussed in Results of Operations Fiscal Year Ended May 31, 2017 Compared to Fiscal Year Ended May 31, 2016 Net Revenues Educational Programs and Services.

Primary and Secondary School Education. Net revenues from our primary and secondary school education increased by 2.6% from US\$30.0 million for the fiscal year ended May 31, 2016 to US\$30.8 million for the fiscal year ended May 31, 2017, primarily due to an increase in the number of students as we offered additional classes.

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Operating Costs and Expenses of Reportable Segments

Cost of Revenues

Language Training and Test Preparation Courses. Cost of revenues for our language training and test preparation courses increased by 20.7% from US\$516.4 million for the fiscal year ended May 31, 2016 to US\$623.4 million for the fiscal year ended May 31, 2017, primarily due to the factors discussed in Results of Operations Fiscal Year Ended May 31, 2017 Compared to Fiscal Year Ended May 31, 2016 Operating Costs and Expenses Cost of Revenues.

Primary and Secondary School Education. Cost of revenues for our primary and secondary school education increased from US\$9.8 million for the fiscal year ended May 31, 2016 to US\$10.5 million for the fiscal year ended May 31, 2017, primarily due to an increase in teaching fees paid to our teachers.

Selling and Marketing Expenses

Language Training and Test Preparation Courses. Selling and marketing expenses for our language training and test preparation courses increased by 16.5% from US\$125.8 million for the fiscal year ended May 31, 2016 to US\$146.5 million for the fiscal year ended May 31, 2017, primarily due to the factors discussed in Results of Operations Fiscal Year Ended May 31, 2017 Compared to Fiscal Year Ended May 31, 2016 Operating Costs and Expenses Selling and Marketing Expenses.

Primary and Secondary School Education. Selling and marketing expenses for our primary and secondary school education decreased from US\$0.7 million for the fiscal year ended May 31, 2016 to US\$1.3 million for the fiscal year ended May 31, 2017.

General and Administrative Expenses

Language Training and Test Preparation Courses. General and administrative expenses for our language training and test preparation courses increased by 22.7% from US\$296.7 million for the fiscal year ended May 31, 2016 to US\$363.9 million for the fiscal year ended May 31, 2017, primarily due to the factors discussed in Results of Operations Fiscal Year Ended May 31, 2017 Compared to Fiscal Year Ended May 31, 2016 Operating Costs and Expenses General and Administrative Expenses.

Primary and Secondary School Education. General and administrative expenses for our primary and secondary school education decreased slightly from US\$12.6 million for the fiscal year ended May 31, 2016 to US\$11.3 million for the fiscal year ended May 31, 2017.

Fiscal Year Ended May 31, 2016 Compared to Fiscal Year Ended May 31, 2015

Net Revenues of Reportable Segments

Language Training and Test Preparation Courses. Net revenues from our language training and test preparation courses increased by 19.0% from US\$1,040.4 million for the fiscal year ended May 31, 2015 to US\$1,238.6 million for the fiscal year ended May 31, 2016, primarily due to the factors discussed in Results of Operations Fiscal Year Ended May 31, 2016 Compared to Fiscal Year Ended May 31, 2015 Net Revenues Educational Programs and Services.

Primary and Secondary School Education. Net revenues from our primary and secondary school education increased by 12.3% from US\$26.7 million for the fiscal year ended May 31, 2015 to US\$30.0 million for the fiscal year ended May 31, 2016, primarily due to an increase in the number of students as we offered additional classes.

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Operating Costs and Expenses of Reportable Segments

Cost of Revenues

Language Training and Test Preparation Courses. Cost of revenues for our language training and test preparation courses increased by 16.6% from US\$443.0 million for the fiscal year ended May 31, 2015 to US\$516.4 million for the fiscal year ended May 31, 2016, primarily due to the factors discussed in Results of Operations Fiscal Year Ended May 31, 2016 Compared to Fiscal Year Ended May 31, 2015 Operating Costs and Expenses Cost of Revenues.

Primary and Secondary School Education. Cost of revenues for our primary and secondary school education increased from US\$9.1 million for the fiscal year ended May 31, 2015 to US\$9.8 million for the fiscal year ended May 31, 2016, primarily due to an increase in teaching fees paid to our teachers.

Selling and Marketing Expenses

Language Training and Test Preparation Courses. Selling and marketing expenses for our language training and test preparation courses increased by 2.5% from US\$122.7 million for the fiscal year ended May 31, 2015 to US\$125.8 million for the fiscal year ended May 31, 2016, primarily due to the factors discussed in Results of Operations Fiscal Year Ended May 31, 2016 Compared to Fiscal Year Ended May 31, 2015 Operating Costs and Expenses Selling and Marketing Expenses.

Primary and Secondary School Education. Selling and marketing expenses for our primary and secondary school education decreased from US\$1.0 million for the fiscal year ended May 31, 2015 to US\$0.7 million for the fiscal year ended May 31, 2016.

General and Administrative Expenses

Language Training and Test Preparation Courses. General and administrative expenses for our language training and test preparation courses increased by 20.9% from US\$245.3 million for the fiscal year ended May 31, 2015 to US\$296.7 million for the fiscal year ended May 31, 2016, primarily due to the factors discussed in Results of Operations Fiscal Year Ended May 31, 2016 Compared to Fiscal Year Ended May 31, 2015 Operating Costs and Expenses General and Administrative Expenses.

Primary and Secondary School Education. General and administrative expenses for our primary and secondary school education increased by 24.7% from US\$10.1 million for the fiscal year ended May 31, 2015 to US\$12.6 million for the fiscal year ended May 31, 2016, primarily due to an increase in salaries and welfare benefits for administrative staff.

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 2015, 2016 and 2017 were increases of 1.2%, 2.0% and 1.5%, 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 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.

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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 financial statements.

Revenue recognition

We recognize revenue when persuasive evidence that an arrangement exists, delivery of the product or service has occurred, the selling price is both fixed and determinable and collection is reasonably assured. The primary sources of our company's revenues are as follows:

Educational programs and services

Educational programs and services consist of language training and test preparation courses, primary and secondary school education and college admission examination retaking training services. Tuition is generally paid in advance and is initially recorded as deferred revenue. Tuition revenue for educational programs and services is recognized proportionately as the instructions are delivered, and is reported net of business taxes, VAT and related surcharges, and tuition refunds. Students are entitled to a short term course 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. Tuition refunds have been insignificant in the fiscal years ended May 31, 2015, 2016 and 2017, respectively. After the trial period, if a student withdraws from a class, usually no refunds will be provided and any collected but unearned portion of the fee is recognized at that time.

We also sell online-learning cards primarily to distributors at fixed prices after deducting a pre-determined fixed discount to the face value of the cards. Online-learning card sales represent prepaid service fees received from students for e-learning services. The prepaid service fee is recorded as deferred revenue upon receiving the upfront payment. Revenue is recognized upon actual usage of the cards by the students based on the number of minutes the students use the e-learning services, of which the actual usage is tracked by us on an individual basis. Upon the expiration of the online-learning card, which ranges from six months to one year from the date of sale of the card to the distributor, we will recognize the remaining unused minutes as revenue.

Books and others

Our company sells educational books or other educational materials either through our own book stores or websites or through third-party distributors. Revenue from sales made through our book stores is recognized upon sales to customers. Revenue through distributors is recognized once the products are sold to the end customers.

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 Xuncheng, our variable interest entities, and their schools and subsidiaries. We have, through our wholly-owned subsidiaries in the PRC, entered into contractual arrangements with New Oriental China, its schools and subsidiaries, Xuncheng and its subsidiary, and their shareholders such that New Oriental China and its schools and subsidiaries, Xuncheng and its subsidiary (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 and 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 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 and Xuncheng 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. In September 2015, the contractual arrangements with Xuncheng Network were terminated, subsequent to which we continued to consolidate Xuncheng Network through voting interest held by New Oriental China.

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As advised by Tian Yuan Law Firm, our PRC counsel, our corporate structure in China complies with all existing PRC laws and regulations. However, our PRC legal counsel 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 Item 3. Risk factors D. Risks Related to Our Corporate Structure If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with applicable PRC laws and regulations, we could be subject to severe penalties 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 New Oriental China's shareholder 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 Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with New Oriental China, its Schools and Subsidiaries and Its Shareholder and Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with Xuncheng Network and Its Shareholder for a summary of these contractual arrangements. In the fiscal years ended May 31, 2015, 2016 and 2017, the VIEs contributed in aggregate 97.9%, 97.7% and 98.8%, respectively, of our total net revenues. Our operations not conducted through contractual arrangements with the VIEs primarily consist of our kindergarten programs and the leasing of our commercial property. As of the fiscal years ended May 31, 2016 and 2017, the VIEs accounted for an aggregate of 69.8% and 71.1%, respectively, of our total assets, and 93.7% and 94.6%, respectively, of our total liabilities. The assets not associated with the VIEs primarily consist of cash, investments and commercial property.

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.

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 if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings. As of May 31, 2017, there was no contingent consideration outstanding.

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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 expense net of a forfeiture rate on a straight-line basis over the requisite service period, with a corresponding addition to paid-in capital. We use the binomial option pricing model to measure the fair value of options granted and the quoted market price of our company's equity shares to measure the fair value of non-vested equity shares granted to employees at each measurement date. The binomial option pricing model is adopted because we believe that considering the possibility of exercise of 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 expense 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. The estimate of forfeitures is based on historical turnover rate and will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change and will impact the amount of share-based compensation expense to be recognized in future periods.

Equity Method Investments

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

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 impairment losses on our equity method investment during the years ended May 31, 2015, 2016 and 2017, respectively.

Cost Method Investments

For investee companies over which we do not have significant influence and a controlling interest, we carry the investment at cost and recognize as income any dividend received from distribution of the investee's earnings.

We review our cost method investments for impairment whenever an event or circumstance indicates that an other-than-temporary impairment has occurred. We consider available quantitative and qualitative evidence in evaluating potential impairment of our cost method investments. An impairment charge is recorded if the cost of an investment exceeds its fair value and such excess is determined to be other-than-temporary. We did not record impairment losses on our cost method investment during the years ended May 31, 2015, 2016 and 2017, respectively.

Available-for-sale Securities Investments

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

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

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We review our investments for other-than-temporary impairment based on the specific identification method. We consider available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds the investment's fair value, we consider, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, our intent and ability to hold the investment, and the financial condition and near term prospects of the investees. We recognized no impairment charge for the years ended May 31, 2015 and 2016, respectively, and we recognized US\$2,338 impairment charge for the year ended May 31, 2017.

Long-term held-to-maturity investment

The long-term held-to-maturity investment represents a trust guaranteed by a bank with the maturity of more than one year, which is stated at its amortized cost. As of May 31, 2017, the related balance was reclassified to long-term investment due to the maturity of the investment being less than one year.

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 using 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 expense.

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 Item 3. Key Information D. 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.

Allowance for doubtful accounts

Accounts receivable represents amounts due from corporate customers of our schools and subsidiaries. We provide allowance for doubtful accounts equal to the estimated amounts. Our estimates are based on historical collection experience and a review of the current status of accounts receivable and advances to suppliers. Accounts receivable and advances to suppliers are presented net of allowance for doubtful accounts.

Economic lives and impairment of property and equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight line basis over the following estimated economic lives:

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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 economic life

Judgment is required to determine the estimated useful lives of property and equipment, especially for the equipment, including determining how long existing equipment can function and when new technologies will be introduced at cost-effective price points to replace existing equipment. Changes in these estimates and assumptions could materially impact our financial position and results of operations.

We review 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, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would recognize an impairment loss based on the fair value of the assets. We recognized no impairment loss on long-lived assets for the years ended May 31, 2015, 2016 and 2017.

Impairment of goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

We review the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether impairment may exist, whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable at least annually.

Goodwill is tested for impairment at the reporting unit level on an annual basis (May 31 of each year) 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.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The estimation of fair value of each reporting unit using a discounted cash flow methodology also requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of the our weighted average cost of capital. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for the reporting unit.

In order to test goodwill for impairment, we 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. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is then tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each

reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill.

The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

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We assessed the qualitative factors to determine it is not more likely than not that the fair value of each reporting unit is less than its respective carrying amount. Impairment of goodwill were nil, nil, and \$1.6 million during the years ended May 31, 2015, 2016 and 2017, respectively.

Recently Issued Accounting Pronouncements

Refer to Note 2 to our consolidated financial statements regarding recent issued accounting pronouncements.

Table of Contents**B. Liquidity and Capital Resources**

Our principal source of liquidity has been cash generated from operating activities. As of May 31, 2017, we had US\$641.0 million in cash and cash equivalents. 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 costs and expenses relating to opening new schools and learning centers. We opened 191 new learning centers and closed 84 existing centers in fiscal year 2017. 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.

The following table sets forth a summary of our cash flows for the periods indicated:

<i>(in thousands of US\$)</i>	For the Year Ended May 31,		
	2015	2016	2017
Net cash provided by operating activities	374,145	517,894	618,137
Net cash used in investing activities	(173,417)	(309,737)	(672,264)
Net cash provided by (used in) financing activities	(44,297)	5,503	9,349
Effect of foreign exchange rate changes	3,274	(35,749)	(23,413)
Net change in cash and cash equivalents	159,705	177,911	(68,191)
Cash and cash equivalents at beginning of period	371,593	531,298	709,209
Cash and cash equivalents at end of the period	531,298	709,209	641,018

Table of Contents***Operating Activities***

Net cash provided by operating activities amounted to US\$618.1 million in the fiscal year ended May 31, 2017. Our net cash provided by operating activities in the fiscal year ended May 31, 2017 reflected net income of US\$276.8 million, as adjusted by the reconciliation of certain non-cash items, including US\$53.9 million in depreciation and US\$20.3 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in deferred revenues in the amount of US\$237.6 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\$35.8 million, primarily due to an increase in accrued employee salary expenses and welfare benefits.

Net cash provided by operating activities amounted to US\$517.9 million in the fiscal year ended May 31, 2016. Our net cash provided by operating activities in the fiscal year ended May 31, 2016 reflected net income of US\$225.3 million, as adjusted by the reconciliation of certain non-cash items, including US\$47.3 million in depreciation and US\$16.8 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in deferred revenues in the amount of US\$179.6 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\$47.9 million, primarily due to an increase in accrued employee salary expenses and welfare benefits.

Net cash provided by operating activities amounted to US\$374.1 million in the fiscal year ended May 31, 2015. Our net cash provided by operating activities in the fiscal year ended May 31, 2015 reflected net income of US\$192.7 million, as adjusted by the reconciliation of certain non-cash items, including US\$46.7 million in depreciation and US\$15.7 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in deferred revenues in the amount of US\$117.1 million due to the increased amount of course fees received during the period, an increase in the accrued expenses and other current liabilities account of US\$11.1 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 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 Beijing, Xi'an, Tianjin, Kunming, Wuhan, Guangzhou, Changsha, Xiamen, Zhengzhou and Yangzhou schools and equipment used in our operations, our investment in term deposits and short term investments. Net cash used in investing activities amounted to US\$672.3 million in the fiscal year ended May 31, 2017, compared to US\$309.7 million in the fiscal year ended May 31, 2016 and US\$173.4 million in the fiscal year ended May 31, 2015.

Net cash used in investing activities in the fiscal year ended May 31, 2017 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$522.8 million, long term available for sale investments in the amount of US\$43.5 million and the purchase of property and equipment in the amount of US\$105.7 million in connection with the expansion of our school network.

Net cash used in investing activities in the fiscal year ended May 31, 2016 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$260.9 million, long term available for sale investments in the amount of US\$78.8 million and the purchase of property and equipment in the amount of US\$64.4 million in connection with the expansion of our school network.

Net cash used in investing activities in the fiscal year ended May 31, 2015 was primarily attributable to net purchase of held-to-maturity investment in the amount of US\$145.4 million and the purchase of property and equipment in the

amount of US\$55.3 million in connection with the expansion of our school network.

Financing Activities

Net cash provided by financing activities amounted to US\$9.3 million in the fiscal year ended May 31, 2017, compared to net cash provided by financing activities of US\$5.5 million in the fiscal year ended May 31, 2016 and net cash used in financing activities of US\$44.3 million in the fiscal year ended May 31, 2015.

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Net cash provided by financing activities in the fiscal year ended May 31, 2017 was primarily attributable to capital contribution from noncontrolling interests of US\$8.8 million.

Net cash provided by financing activities in the fiscal year ended May 31, 2016 was primarily attributable to investment of RMB445.7 million (US\$68.3 million) by investors into Xuncheng Network, a subsidiary of New Oriental China and cash dividend in the amount of US\$62.7 million.

Net cash used in financing activities in the fiscal year ended May 31, 2015 was primarily attributable to cash paid for share repurchase in the amount of US\$59.4 million.

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 New Oriental China, our variable interest entity, and its schools and subsidiaries and shareholder. See [Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with New Oriental China, Its Schools and Subsidiaries and Its Shareholder](#) for a summary of these contractual arrangements. In the fiscal year ended May 31, 2015, we entered into a series of contractual arrangements with Xuncheng Network, a then wholly-owned subsidiary of New Oriental China, its subsidiaries and its shareholder as part of an internal restructuring. Following a change in our restructuring strategy, these contractual arrangements were terminated in September 2015. See [Item 4. Information on the Company C. Organizational Structure Contractual Arrangements with Xuncheng Network, Its Subsidiary and Its Shareholder](#) for a summary of these contractual arrangements. In the fiscal years ended May 31, 2015, 2016 and 2017, our variable interest entity(ies) contributed in aggregate 97.9%, 97.7% and 98.8%, respectively, of our total net revenues. Our operations not conducted through contractual arrangements with our variable interest entity(ies) primarily consist of our kindergarten programs and the leasing of our commercial property. As of May 31, 2016 and 2017, our variable interest entity(ies) accounted for an aggregate of 69.8% and 71.1%, respectively, of our total assets, and 93.7% and 94.6%, respectively, of our total liabilities. The assets not associated with our variable interest entity(ies) primarily consist of cash and cash equivalents, term deposits and short-term investments. As of May 31, 2016 and 2017, US\$51.9 million and US\$75.9 million, respectively, of these assets were denominated in U.S. dollars, and \$317.6 million and US\$441.2 million, respectively, of these assets were denominated in RMB.

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 entity(ies), and, to a lesser degree, our PRC subsidiaries' retained earnings. As of May 31, 2015, 2016 and 2017, the total amount of service fees payable to our PRC subsidiaries from our variable interest entity(ies) under the service agreements was US\$29.4 million, US\$262.7 million and US\$267.5 million, respectively. Conducting our operations through contractual arrangements with our variable interest entity(ies) entails a risk that we may lose the power to direct the activities that most significantly affect the economic performance of our variable interest entity(ies), 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 [Item 3. Risk Factors D. 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 our China business do not comply with applicable PRC laws and regulations, we could be subject to severe penalties](#) 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, New Oriental China and its subsidiaries which is not a 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, at the end of each fiscal year, each of our schools in China is required to allocate a certain amount out of its annual net income, 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. 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.

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Pursuant to contractual arrangements that our wholly-owned subsidiaries in China have with New Oriental China, the earnings and cash of New Oriental China and its 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 Item 4. Information on the Company C. Organizational Structure for a diagram of our corporate structure. As of May 31, 2017, the net assets of our PRC subsidiaries and New Oriental China and its 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\$488.6 million, and the net assets of our PRC subsidiaries and New Oriental China and its schools and subsidiaries which were unrestricted and thus available for distribution were in aggregate US\$1,192.4 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 Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China 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 and 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.

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 Item 3. Key Information D. 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, O2O ecosystem and bookstores has required significant investment. Our capital expenditures were US\$55.3 million, US\$64.4 million and US\$105.7 million in the fiscal years ended May 31, 2015, 2016 and 2017, respectively. Our capital expenditures are incurred primarily in connection with facility acquisitions, leasehold improvements and investments in equipment, technology and operating systems. Our capital expenditures for the fiscal year ended May 31, 2017 were primarily due to our investments in facilities, equipment, technology and operating systems to meet the expected growth of our operations. 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.

C. Research and Development, Patents and Licenses, etc.**Technology**

Our technology platform is designed to provide systems that help distinguish us in the marketplace, operate cost-effectively and accommodate future growth. We currently use a combination of commercially available and custom developed software and hardware systems. Our technology platform is a combination of e-learning platforms, alumni platforms, content management systems, exam platforms, e-business promotion platforms and bookstore platforms, live Internet classrooms, as well as licensed speech recognition platforms. Our investment in system infrastructure has several key benefits: simplification of the storage and processing of large amounts of data,

facilitation of the deployment and operation of large-scale programs and services and automation of much of the administration of our business. It also provides us with the ability to scale both capacity and functionality and build large clusters seamlessly.

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One of our ongoing primary objectives 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 technology, our system can identify errors and isolate failed servers automatically so that our clients can access our services at any time. Our websites are hosted at third party facilities in Beijing. This facility provides 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 center to minimize the impact of data loss due to system failures. We do not capitalize any related costs.

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 secret laws as well as confidentiality agreements with our employees, contractors and others. , New Oriental , , and are registered trademarks in China and have been recognized as well-known trademarks () in civil action adjudicated and/or administrative determination in China. We have also registered additional trademarks and logos, including Pop Kids, with the Trademark Office of the State Administration for Industry and Commerce in China. Our main websites are located at www.df.cn, www.neworiental.org, english.neworiental.org, and www.koolearn.com. In addition, we have registered other domain names, including www.dogwood.com.cn, www.popkids.com.cn, www.young.com, www.ileci.com, www.okayzhahui.com, www.51zhishang.com, www.donut.cn, www.maxen.com.cn, www.51pigai.com and www.66xue.com.

In order to develop, improve, market and deliver new programs and services, we are required to obtain licenses from others from time to time. For example, we currently have arrangements with international education content providers and publishers such as British Council, Cengage Learning, Coursera, Monash College Pty Ltd, NCUK, International Baccalaureate, Bell Education, ETS, HMH, Cambridge University Press, Cambridge English Language Assessment, The McGraw-Hill Companies, Pearson Education, Oxford University Press, Harper Collins, or their respective authorized local publishers, to develop and distribute localized versions of specified books in China. 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.

We cannot be sure that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights. In addition, 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. 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 litigation is necessary to enforce our intellectual property rights or determine the scope of the proprietary rights of others, we may have to incur substantial costs or divert other resources, which could harm our business.

In addition, competitors, content providers, publishers and others may claim that we have infringed their intellectual property rights. Defending any such lawsuit, whether with or without merit, could be time-consuming, result in costly litigation or prevent us from offering our programs and services, which could harm our business. If a lawsuit against us is successful, we may lose the rights to use our products or be required to modify them, or we may have to pay financial damages.

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 will further improve our ability to avoid infringing or potentially infringing activities, minimize our exposure to third party claims and protect our reputation as a company that respects the intellectual property rights of third parties.

Table of Contents**D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events since the beginning of our fiscal year 2017 that are reasonably likely to have a material effect on our net revenues, income from operations, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

E. 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.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of May 31, 2017:

<i>(in thousands of US\$)</i>	Total	Payment due by period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Operating Lease Obligations ⁽¹⁾	843,222	204,996	342,392	207,223	88,611
Purchase and Leasehold Improvements Obligations ⁽²⁾	19,697	19,697			
Total	862,919	224,693			

(1) Represents lease obligations under our facility leases.

(2) Represents leasehold improvement obligations in connection with renovations of the leased facilities.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. Directors and Senior Management**

The following table sets forth information regarding our executive officers and directors as of the date of this annual report.

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Name	Age	Position/Title
Michael Minhong Yu	54	Executive Chairman
Chenggang Zhou	55	Director and Chief Executive Officer
Zhihui Yang	43	Chief Financial Officer
Louis T. Hsieh	53	Director
Robin Yanhong Li	48	Independent Director
Denny Lee	49	Independent Director
John Zhuang Yang	62	Independent Director

Mr. Michael Minhong Yu is the founder of our company and has served as the chairman of our board of directors since 2001. He was also our chief executive officer from 2001 to September 2016. In addition to his roles in our company, Mr. Yu also serves as vice chairman of the Beijing Young Entrepreneurs Association and vice chairman of the Committee of Education of the Central Committee of the China Democratic League. Prior to founding our first school in 1993, Mr. Yu was an English instructor at Peking University from 1985 and 1991. 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.

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 March 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.

Mr. Louis 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 currently serves as the chief financial officer at NIO (or NextEV). Previously, Mr. Hsieh was the chief financial officer of ARIIO Data Networks, Inc. in San Jose, California from April 2004. From 2002 to 2003, Mr. Hsieh was a managing director for private equity firm Darby Asia Investors (HK) Limited. Prior to that, 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 2000. Over the period 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 and is a member of the California bar. Mr. Hsieh also serves as an independent director of JD.com, Inc. (NASDAQ: JD), China's leading online direct sales company, and Nord Anglia Education, Inc. (NYSE: NORD), the world's leading premium schools organization. Mr. Hsieh has been appointed to serve on the board of Yum China Holdings, Inc. as an independent director following the spin-off of Yum China Holdings, Inc. from Yum! Brands, Inc., an NYSE-listed company, which is expected to occur after the close of business on October 31, 2016. Mr. Hsieh holds a B.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 6, 2006. Mr. Li is a co-founder of Baidu, Inc., the leading Chinese language Internet search provider listed on the Nasdaq Global Select Market. 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 January 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.

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Mr. Denny Lee has served as our independent director since September 6, 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, since April 2002. He was the chief financial officer of NetEase, Inc. from April 2002 to June 2007 and its financial controller from November 2001 to April 2002. Prior to joining NetEase, 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 board of Concord Medical Services Holdings Limited, which is listed on the New York Stock Exchange, and as an independent non-executive director on the board of China Metal Resources Utilization Ltd., 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.

Dr. John Zhuang Yang has served as our independent director since September 3, 2007. Dr. Yang is currently the Dean of the Beijing International M.B.A. Program at Peking University. He also serves as a full-time professor at National School of Development of Peking University and holds a tenured professorship at Fordham University's graduate school of business. Dr. Yang currently also serves as an independent director of Tristate Holdings Limited, a company listed on the Hong Kong Stock Exchange. 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.

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 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.

B. Compensation of Directors and Executive Officers

For the fiscal year ended May 31, 2017, we paid an aggregate of approximately US\$1.7 million in cash to our executive officers and non-executive directors as a group. In addition, 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\$130,000. See Share Incentives 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.

Table of Contents**Share Incentives****2006 Share Incentive Plan**

Our 2006 Share Incentive Plan, as amended, or 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 after its expiration, but the expiration of the plan would not impair any award previously granted under the plan.

2016 Share Incentive Plan

We adopted our 2016 Share Incentive Plan, or 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 following table summarizes, as of September 23, 2017, the outstanding non-vested equity shares granted under our 2006 plan to several of our directors and executive officers.

Name	Common Shares		Date of Grant	Date of Expiration
	Underlying Outstanding NES	Exercise Price (US\$/Share)		
Chenggang Zhou	*		2/6/2015	12/31/17
Zhihui Yang	*		2/6/2015	12/31/17
Louis T. Hsieh	*		10/19/2015	12/31/17

* Less than 1% of our total outstanding voting securities.
Non-vested equity share awards.

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

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of cash, common shares or other securities as established by our plan administrator;

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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, or 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.

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.

The following paragraphs describe the principal terms of the 2016 plan.

Amendment of the Plan. Our board of director 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.

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Xuncheng Network Employee Share Ownership Arrangement

In October 2015, Xuncheng Network completed a transaction to sell 21% equity interest to seven limited partnerships, the special purpose vehicles established for holding Xuncheng Network's shares on behalf of a number of our employees. As of the date of this annual report, our director and chief executive officer, Mr. Chenggang Zhou and our chief financial officer, Mr. Zihui Yang each held the economic interest associated with no more than 1% of equity interest in Xuncheng Network.

C. Board Practices

Our board of directors currently consists of six directors, which consist of three independent directors and three directors who are, or have been within the past three years, also our executive officers. 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. In the fiscal year ended May 31, 2017, our board held meetings or passed resolutions by unanimous written consent 13 times.

Committees of the Board of Directors

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 at <http://investor.neworiental.org>. 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. 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. 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.

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In the fiscal year ended May 31, 2017, the audit committee held meetings or passed resolutions by unanimous written consent three times, and also approved certain other matters together with the rest of the board members four times, including the audit committee's approval of four quarterly earnings releases.

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.

In the fiscal year ended May 31, 2017, the compensation committee passed resolutions by unanimous written consent once, and also approved certain matters together with the rest of the board members twice.

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. In the fiscal year ended May 31, 2016, the nominating and corporate governance committee approved certain matters together with the rest of the board members once.

Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the 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.

Table of Contents**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) dies or is found by our company to be or becomes of unsound mind.

D. Employees

We had 25,826, 28,690 and 34,217 full time employees and 7,667, 7,993 and 8,767 contract teachers and staff as of May 31, 2015, 2016 and 2017, respectively. Our employees are not covered by any collective bargaining agreement. We consider our relations with our employees to be generally good.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our common shares by:

each of our directors and executive officers; and

each person known to us to own beneficially more than 5% of our common shares.

Except as specifically noted, the beneficial ownership is as of September 23, 2017.

	Shares Beneficially Owned	
	Number⁽¹⁾	%⁽²⁾
Directors and Executive Officers:		
Michael Minhong Yu ⁽³⁾	21,264,600	13.5
Chenggang Zhou	*	*
Zhihui Yang	*	*
Louis T. Hsieh	*	*
Robin Yanhong Li	*	*
Denny Lee	*	*
John Zhuang Yang	*	*
All Directors and Executive Officers as a Group ⁽⁴⁾	21,982,441	13.9
Principal Shareholders:		
Tigerstep Developments Limited ⁽⁵⁾	21,264,600	13.5
UBS Group AG. ⁽⁶⁾	18,950,228	12.0
Schroder Investment Management. ⁽⁷⁾	11,747,351	7.4
FIL Limited ⁽⁸⁾	9,984,610	6.3
FMR LLC ⁽⁹⁾	9,232,317	5.8
Oppenheimer Funds, Inc. ⁽¹⁰⁾	9,194,942	5.8

Baillie Gifford & Co ⁽¹¹⁾	7,794,739	4.9
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* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the SEC.

(2) For each person and group included in this table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of (i) 158,119,910, being the number of common shares outstanding as of September 23, 2017 and (ii) the number of common shares underlying share options held by such person or group that are exercisable within 60 days after September 23, 2017 and the number of non-vested equity shares held by such person or group that will vest within 60 days after September 23, 2017.

(3) Includes 21,264,600 common shares held by Tigerstep Developments Limited, a British Virgin Islands company wholly owned by Bamei Li, mother of Michael Minhong Yu. Through a trust arrangement, Michael Minhong Yu, together with his family, holds beneficial interest in Tigerstep Development Limited. The business address of Mr. Yu is No. 6 Hai Dian Zhong Street, Haidian District, Beijing 100080, People's Republic of China.

(4) Includes (i) common shares, (ii) common shares issuable upon exercise of all of the options that are exercisable within 60 days after September 23, 2017 and (iii) non-vested equity shares that will vest within 60 days after September 23, 2017 held by all of our directors and senior executive officers as a group.

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- (5) Tigerstep Developments Limited, a company incorporated in the British Virgin Islands, is wholly owned by Bamei Li, mother of Michael Minhong Yu. The registered address of Tigerstep Developments Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, the British Virgin Islands.
- (6) The number of common shares beneficially owned is as of May 3, 2017, as reported in a Schedule 13G filed by UBS Group AG on May 3, 2017 on behalf of the UBS Asset Management division. As set forth in the Schedule 13G, Schroder Investment Management has sole power to vote 10,937,288 common shares and shared power to dispose of 18,950,228 common shares. The business address of UBS Group AG is Bahnhofstrasse 45, Zurich, Switzerland.
- (7) The number of common shares beneficially owned is as of December 31, 2016, as reported in a Schedule 13G filed by Schroder Investment Management North America Inc on February 9, 2017 on behalf of Schroder Investment Management Ltd, Schroder & Co Ltd, Schroder & Co (Asia) Ltd, Schroder & Co Bank AG, Schroder Investment Management (Hong Kong) Ltd, Schroder Investment Management North America Ltd and Schroder Investment Management (Singapore) Ltd (collectively Schroder Investment Management). As set forth in the Schedule 13G, Schroder Investment Management has shared power to vote and dispose of 11,747,351 common shares. Schroder Investment Management North America Inc disclaims the existence of a group. The business address of Schroder Investment Management North America Inc is 875 Third Ave, 22nd Floor, New York, NY 10022, USA.
- (8) The number of common shares beneficially owned is as of December 31, 2016, as reported in a Schedule 13G filed by FIL Limited on February 14, 2017. As set forth in the Schedule 13G, FIL Limited has sole power to vote 7,745,987 common shares and sole power to dispose of 9,984,610 common shares. The business address of FIL Limited is Pembroke Hall, 42 Crow Lane, Hamilton, Bermuda.
- (9) The number of common shares beneficially owned is as of December 31, 2016, as reported in a Schedule 13G filed by FMR LLC on February 14, 2017. As set forth in the Schedule 13G, FMR LLC has sole power to vote 653,837 common shares and sole power to dispose of 9,232,317 common shares. The business address of FMR LLC is 245 Summer Street, Boston, Massachusetts 02210, USA.
- (10) The number of common shares beneficially owned is as of December 31, 2016, as reported in a Schedule 13G filed by OppenheimerFunds, Inc. on February 6, 2017. As set forth in the Schedule 13G, OppenheimerFunds, Inc. has shared power to vote and dispose of 9,194,942 common shares. The business address of OppenheimerFunds, Inc. is Two World Financial Center, 225 Liberty Street, New York, NY 10281.
- (11) The number of common shares beneficially owned is as of March 10, 2017, as reported in a Schedule 13G filed by Baillie Gifford & Co on March 10, 2017. As set forth in the Schedule 13G, Baillie Gifford & Co has sole power to vote 3,360,196 common shares and sole power to dispose of 7,794,739 common shares. The business address of Baillie Gifford & Co is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, UK.
- None of our existing shareholders have different voting rights from other shareholders. To our knowledge, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal persons, severally or jointly. We are not aware of any arrangement that may, at a subsequent date, result in a

change of control of our company. As of September 23, 2017, we had 158,119,910 common shares issued and outstanding, and Deutsche Bank Trust Company Americas, as the depository of our ADS facility, was the only record holder of our common shares in the United States, holding approximately 89% of our total outstanding common shares. The number of beneficial owners of our ADSs in the United States is likely much larger than the one record holder of our common shares in the United States.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

Contractual Arrangements with New Oriental China and Its Schools and Subsidiaries and Shareholder

See Item 4 Information on the Company C. Organizational Structure Contractual Arrangements with New Oriental China and Its Schools and Subsidiaries and Its Shareholder for a summary of the contractual arrangements we have entered into with New Oriental China and its subsidiaries and shareholder, which 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 interests in New Oriental China held by such shareholder to another PRC person or entity designated by us at any time in our discretion.

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In connection with Xuncheng Network's proposed listing of its common shares on the National Equities Exchange and Quotations in China, New Oriental China and Beijing Pioneer entered into an amendment to the Master Exclusive Service Agreement on January 28, 2016, pursuant to which Xuncheng Network was removed from the schedule of the Master Exclusive Service Agreement. However, we continue to consolidate Xuncheng Network through voting interest held by New Oriental China.

Contractual Arrangements with Xuncheng Network and Its Shareholder

See Item 4 Information on the Company C. Organizational Structure Contractual Arrangements with Xuncheng Network, Its Subsidiary and Its Shareholder for a summary of the contractual arrangements we have entered into with Xuncheng Network, its subsidiary and its shareholder, which were terminated in September 2015.

Employment Agreements

See Item 6. Directors, Senior Management and Employees A. Directors and Senior Management for a description of the employment agreements we have entered into with our senior executive officers.

Share Incentives

See Item 6. Directors, Senior Management and Employees B. Compensation of Directors and Executive Officers for a description of share-based compensation we have provided to our directors, officers and other individuals as a group.

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 (Tianjin) Co., Ltd., or Metropolis Holding. In February 2012, Fine Talent Holdings Limited, a British Virgin Islands company 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 parties transactions. As of May 31, 2017, twenty one 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, 2017, we accrued a total of US\$6.8 million rent to Metropolis Holding. As of May 31, 2017, amounts due from Metropolis Holding were US\$3.0 million, which represented prepaid rent and rental deposit.

Loans to Joint Ventures and Equity Method Long-Term Investee

As of May 31, 2017, the amount due from Beijing Haiwei Career Services Co., Ltd., or Haiwei Career, a joint venture 50% owned by our company, was US\$4.0 million, representing non-interest bearing loans extended by us during the fiscal year ended May 31, 2017 to Haiwei Career to support its daily operation. All the loans are payable within one year.

As of May 31, 2017, the amount due from Weixue Mingri represented the non-interest bearing loans provided by us to support its daily operation and the outstanding loans were fully wrote off by us.

Transactions with Other Related Parties

During the fiscal year ended May 31, 2017, we recorded revenue in the amount of US\$90 thousand from other related parties and recorded US\$23 thousand expenses for services received from other related parties. As of May 31, 2017, we had US\$772 thousand in aggregate due from other related parties and US\$48 thousand in aggregate due to other related parties.

C. Interests of Experts and Counsel

Not applicable.

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ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See Item 18 Financial Statements.

Legal and Administrative Proceedings

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business.

Litigation

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 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. See Item 3. Key Information D. 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. We are not currently a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have a material and adverse effect on our business, financial condition or results of operations.

Dividend Policy

On April 17, 2012, our board of directors declared a special cash dividend in the amount of US\$0.30 per ADS. The cash dividend was paid on September 28, 2012 to shareholders of record at the close of business on August 31, 2012. The aggregate amount of cash dividends paid was US\$47.0 million, which was funded by surplus cash on our balance sheet. On July 23, 2013, our board of directors declared a special cash dividend in the amount of US\$0.35 per ADS. The cash dividend was paid on October 7, 2013 to shareholders of record at the close of business on September 6, 2013. The aggregate amount of cash dividends paid was US\$54.5 million, which was funded by surplus cash on our balance sheet. On July 21, 2015, our board of directors declared a special cash dividend in the amount of US\$0.4 per ADS. The cash dividend was paid in October 2015 to shareholders of record at the close of business on September 4, 2015. The aggregate amount of cash dividends paid was approximately US\$62.7 million. 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 will be paid in October 2017 to shareholders of record at the close of business on September 6, 2017. The aggregate amount of cash dividends to be paid is approximately US\$70.0 million.

Other than the declaration of the special cash dividend described in the preceding paragraph, we have not declared any dividend since the completion of our initial public offering and have no present intention to declare any additional dividends on our shares in the future. We currently intend to retain all of our available funds and any future earnings to operate and expand our business and we have no plan to repatriate the remaining undistributed earnings from our subsidiaries in China. For the part of the dividend declared on July 23, 2013 that needs to be funded through dividend from our subsidiaries in China, we paid the PRC withholding tax.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our subsidiaries in China and consulting, license and other fees paid to us by New Oriental China and its schools and subsidiaries. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in

accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries and New Oriental China and its subsidiaries are 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 to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of the board. These reserves may not be distributed as cash dividends. Further, if our PRC subsidiaries or New Oriental China and its schools and subsidiaries 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. Moreover, at the end of each fiscal year, every private school in China is required to allocate a certain amount out of its annual net income, if any, 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 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.

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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.

B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING**A. Offering and Listing Details**

See C. Markets.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been listed on the NYSE since September 7, 2006 and trade under the symbol EDU. Prior to August 18, 2011, each of our ADSs represented four common shares. On August 18, 2011, we effected a change in the ratio of our ADSs to common shares from one ADS representing four common shares to one ADS representing one common share.

The following table provides the high and low trading prices for our ADSs on the NYSE for the periods indicated. For ease of comparison, the ADS prices before August 18, 2011 have been retroactively adjusted to reflect the ADS to common share ratio change that took effect on August 18, 2011.

	Trading Price	
	High	Low
	US\$	US\$
Annual High and Low		
Fiscal Year 2013	28.33	9.41
Fiscal year 2014	34.50	20.06
Fiscal year 2015	27.42	18.10
Fiscal year 2016	43.58	18.09
Fiscal Year 2017	76.18	38.11
Quarterly Highs and Lows		
First Fiscal Quarter of 2016	26.46	18.09
Second Fiscal Quarter of 2016	30.98	18.22
Third Fiscal Quarter of 2016	33.56	27.40

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Fourth Fiscal Quarter of 2016	43.58	30.01
First Fiscal Quarter of 2017	45.37	38.11
Second Fiscal Quarter of 2017	53.38	39.31
Third Fiscal Quarter of 2017	52.37	37.16
Fourth Fiscal Quarter of 2017	76.18	48.95
First Fiscal Quarter of 2018	86.88	69.91
Monthly Highs and Lows		
March 2017	60.91	48.95
April 2017	68.52	58.47
May 2017	76.18	63.25
June 2017	83.21	69.91
July 2017	83.91	70.37
August 2017	86.88	74.66
September 2017 (through September 25)	94.30	80.59

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D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We are a Cayman Islands company and our affairs are governed by our memorandum and articles of association, the Companies Law (2016 Revision) of the Cayman Islands, or the Companies Law, and the common law of the Cayman Islands. The following are summaries of material provisions of our amended and restated memorandum and articles of association in effect as of the date of this annual report insofar as they relate to the material terms of our common shares.

Registered Office and Objects

Our registered office in the Cayman Islands is located at Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, or at such other place as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law, as amended from time to time, or any other law of the Cayman Islands.

Board of Directors

A director is not required to hold any shares in our 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 our 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 our company or of any third party. The directors may receive such remuneration as our board may from time to time determine. There is no age limit requirement with respect to the retirement or non-retirement of a director. See also Item 6. Directors, Senior Management and Employees C. Board Practices Duties of Directors and Terms of Directors and Officers.

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Common Shares

General. All of our outstanding common shares are fully paid and non-assessable. Certificates representing the common shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our common shares are entitled to such dividends as may be declared by our board of directors, subject to the Companies Law and our memorandum and articles of association.

Voting Rights. Each common share is entitled to one vote on all matters upon which the common shares are entitled to vote. Voting at any shareholders' meeting is by show of hands unless a poll is demanded. A poll may be demanded by our chairman or any shareholder holding at least 10% of the shares given a right to vote at the meeting, present in person or by proxy.

A quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative, which hold in aggregate at least one-third of our voting share capital. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate not less than 33% of our voting share capital. Advance notice of at least seven days is required for the convening of our annual general meeting and other shareholders' meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the common shares cast in a general meeting, while a special resolution requires the affirmative vote of not less than two-thirds of the votes cast attaching to the common shares. A special resolution is required for important matters such as a change of name. Holders of the common shares may affect certain changes by ordinary resolution, including increasing the amount of our authorized share capital, consolidating and dividing all or any of our share capital into shares of a larger amount than our existing share capital, and canceling any shares.

Transfer of Shares. Subject to the restrictions of our memorandum and articles of association, as applicable, any of our shareholders may transfer all or any of his or her common shares by an instrument of transfer in the usual or common form prescribed by the New York Stock Exchange or in any other form approved by our board.

Our board of directors may, in its sole discretion, decline to register any transfer of any common share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any common share unless (1) the instrument of transfer is lodged with us, accompanied by the certificate for the common shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer; (2) the instrument of transfer is in respect of only one class of common shares; (3) the instrument of transfer is duly and properly signed; (4) in the case of a transfer to joint holders, the number of joint holders to whom the common share is to be transferred does not exceed four; (5) the shares conceded are free of any lien in favor of us; or (6) a fee of such maximum sum as the New York Stock Exchange may determine to be payable, or such lesser sum as our board of directors may from time to time require, is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of common shares shall be distributed among the holders of the common shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

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Redemption of Shares. Subject to the provisions of the Companies Law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by special resolution.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the written consent 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.

Inspection of Books and Records. Holders of our common shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See H. Documents on Display.

Limitations on the Right to Own Shares. There are no limitations on the right to own our shares.

Disclosure of Shareholder Ownership. There are no provisions in our amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

Differences in Corporate Law

The Companies Law is derived, to a large extent, from the older Companies Acts of England but does not follow recent statutory enactments in England. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States.

Mergers and Similar Arrangements. The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) merger means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a consolidation means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company's articles of association.

The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must, in addition, represent 75% in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings,

convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the Grand Court of the Cayman Islands can be expected to approve the arrangement if it determines that (a) the statutory provisions as to the required majority vote have been met; (b) the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class; (c) the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and (d) the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

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

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

Shareholders Suits. In principle, we will normally be the proper plaintiff and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, there are exceptions to the foregoing principle, including when (a) a company acts or proposes to act illegally or ultra vires; (b) the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and (c) those who control the company are perpetrating a fraud on the minority .

Indemnification of Directors and Executive Officers and Limitation of Liability. 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 Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our amended and restated memorandum and articles of association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from dishonesty or fraud which may attach to such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we intend to enter into indemnification agreements with our directors and senior executive officers that will provide such persons with additional indemnification beyond that provided in our amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Anti-Takeover Provisions in the Memorandum and Articles of Association. Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company.

Directors Fiduciary Duties. As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his or her position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a

director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

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In addition, directors of a Cayman Islands company must not place themselves in a position in which there is a conflict between their duty to the company and their personal interests. However, this obligation may be varied by the company's articles of association, which may permit a director to vote on a matter in which he has a personal interest provided that he has disclosed that nature of his interest to the board. Our amended and restated memorandum and articles of association provides that a director with an interest (direct or indirect) 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 of directors at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the board of directors after he is or has become so interested.

A general notice may be given at a meeting of the board of directors to the effect that (i) the director is a member/officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice in writing be made with that company or firm; or (ii) he is to be regarded as interested in any contract or arrangement which may after the date of the notice in writing to the board of directors be made with a specified person who is connected with him, will be deemed sufficient declaration of interest. Following the disclosure being made pursuant to our amended and restated memorandum and articles of association and subject to any separate requirement for Audit Committee approval under applicable law or the listing rules of the NYSE, and unless disqualified by the chairman of the relevant board meeting, a director may vote in respect of any contract or arrangement in which such director is interested and may be counted in the quorum at such meeting. However, even if a director discloses his interest and is therefore permitted to