
**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, 2020.

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-32993

**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)

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Haidian District, Beijing 100080
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Exchange on Which Registered</u>
American depository shares, each representing one common share*	EDU	New York Stock Exchange
Common shares, par value US\$0.01 per share**		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 depository 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. 158,540,080 common shares, par value US\$0.01 per share, as of May 31, 2020.

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

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

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

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

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

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

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

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

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

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

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

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

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

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

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INTRODUCTION

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 students enrolled in our kindergarten, 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 the legal 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 RMB7.1348 to US\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on May 31, 2020. 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.

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)

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 these 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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ITEM 3. KEY INFORMATION

A. Selected Financial Data

Our Selected Consolidated Financial Data

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, 2018, 2019 and 2020 and the consolidated balance sheet data as of May 31, 2018, 2019 and 2020 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, 2016 and 2017 and the selected consolidated balance sheet data as of May 31, 2016 and 2017 have been derived from our audited consolidated financial statements for the fiscal years ended May 31, 2016 and 2017, 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. Operating and Financial Review and Prospects—A. Operating Results.” 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 and per share data)</i>	For the Years Ended May 31,				
	2016	2017	2018	2019	2020
Selected Consolidated Statement of Operations Data:					
Net revenues:					
Educational programs and services	1,309,339	1,608,954	2,165,152	2,785,254	3,230,378
Books and other services	169,009	190,555	282,278	311,237	348,304
Total net revenues	1,478,348	1,799,509	2,447,430	3,096,491	3,578,682
Operating cost and expenses: ⁽¹⁾					
Cost of revenues	(614,364)	(749,586)	(1,065,740)	(1,376,269)	(1,588,899)
Selling and marketing	(197,897)	(232,826)	(324,249)	(384,287)	(445,259)
General and administrative	(471,010)	(554,948)	(794,482)	(1,034,028)	(1,145,521)
Total operating cost and expenses	(1,283,271)	(1,537,360)	(2,184,471)	(2,794,584)	(3,179,679)
Gain on disposal of a subsidiary	3,760	—	—	3,627	—
Operating income	198,837	262,149	262,959	305,534	399,003
Other income, net:					
Interest income	66,861	61,445	84,838	97,530	116,117
Interest expense	—	—	—	(1,615)	(4,627)
Realized gain from long-term investments	—	7,086	7,366	26,379	407
Impairment loss from long-term investments	—	(2,338)	(980)	(5,919)	(31,750)
Loss from fair value change of long-term investments	—	—	—	(104,636)	(18,451)
Miscellaneous income (loss), net	1,586	2,367	2,841	(1,424)	27,137
Provision for income taxes:					
Current	(39,467)	(51,142)	(72,785)	(103,031)	(142,992)
Deferred	1,936	518	13,377	17,317	8,630
Provision for income taxes	(37,531)	(50,624)	(59,408)	(85,714)	(134,362)
(Loss) gain from equity method investments	(4,425)	(3,289)	(379)	(2,289)	1,385
Net income	225,328	276,796	297,237	227,846	354,859

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<i>(in thousands of US\$ except share and per share data)</i>	For the Years Ended May 31,				
	2016	2017	2018	2019	2020
Less: Net income (loss) attributable to noncontrolling interests	444	2,339	1,107	(10,219)	(58,474)
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders	224,884	274,457	296,130	238,065	413,333
Net income per common share attributable to shareholders of New Oriental Education & Technology Group Inc. ⁽²⁾					
-Basic	1.43	1.74	1.87	1.50	2.61
-Diluted	1.43	1.74	1.87	1.50	2.59
Weighted average shares used in calculating basic net income per common share	156,782,439	157,551,320	158,168,794	158,293,890	158,429,576
Weighted average shares used in calculating diluted net income per common share	157,391,686	157,986,394	158,556,500	159,039,345	159,536,890

- (1) Share-based compensation expenses are included in our operating cost and expenses as follows:
(2) Each ADS represents one common share.

<i>(in thousands of US\$)</i>	For the Years Ended May 31,				
	2016	2017	2018	2019	2020
Cost of revenues	—	—	—	134	2,224
Selling and marketing	—	—	—	1,205	4,227
General and administrative	16,810	20,287	57,443	69,997	55,606
Total	16,810	20,287	57,443	71,336	62,057

The following table presents our selected consolidated balance sheet data as of May 31, 2016, 2017, 2018, 2019 and 2020:

<i>(in thousands of US\$)</i>	As of May 31,				
	2016	2017	2018	2019	2020
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	709,209	641,018	983,319	1,414,171	915,057
Total assets	2,354,834	2,924,979	3,977,712	4,646,559	6,556,885
Total current liabilities	918,190	1,202,681	1,750,884	2,006,224	2,479,364
Total liabilities	920,172	1,204,901	1,763,017	2,121,462	3,687,074
Total mezzanine equity	—	—	206,624	—	—
Total New Oriental Education & Technology Group Inc. shareholders' equity	1,404,572	1,680,948	1,991,589	2,360,686	2,733,295
Noncontrolling interests	30,090	39,130	16,482	164,411	136,516
Total equity	1,434,662	1,720,078	2,008,071	2,525,097	2,869,811

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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.

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

Our teachers are critical to maintaining the quality of our programs, services and products and maintaining our brand and reputation. It is critical for us to continue to attract qualified teachers who have a strong command of the subject areas to be taught and meet our qualification. We also need to hire teachers who are capable of delivering innovative and inspirational instruction. The number of teachers in China with the necessary experience and language proficiency to teach our courses is limited and we must provide competitive compensation packages to attract and retain qualified teachers. In addition, criteria such as commitment and dedication are difficult to ascertain during the recruitment process, in particular as we continue to expand and add teachers to meet rising student enrollments. We must also provide continuous training to our teachers so that they can stay up to date with changes in student demands, admissions and assessment tests, admissions standards, school curriculum, and other key trends necessary to effectively teach their respective courses. We may not be able to hire, train and retain enough qualified teachers to keep pace with our anticipated growth while maintaining consistent teaching quality across our education services in different geographic locations. In addition, PRC laws and regulations may require our teachers to have requisite licenses. For example, teachers in kindergartens and primary and secondary schools are required to obtain the teacher licenses. The State Council Circular 80 and the Implementation Opinion on Regulating Online After-school Tutoring Activities further require teachers in training schools to apply for teacher licenses, if they teach certain academic subjects in the primary and secondary education stage. If some of our teachers, due to various reasons, are unable to apply for and obtain the requisite teaching licenses on a timely basis, or at all, we may be required to rectify such non-compliance and may not be able to continue to retain such teachers. Shortages of qualified teachers or decreases in the quality of our instruction, whether actual or perceived, in one or more of our markets may have a material and adverse effect on our business.

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

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

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

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

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

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.

In order to develop, improve, promote and deliver new products and services, we cooperate with various leading international education content providers and are required to obtain licenses from others from time to time. For example, we have worked with Cambridge University Press, Oxford University Press, Educational Testing Service, Cengage Learning, the Northern Consortium (NCUK) and other education content providers in distributing their education materials in China. With access to such high-quality education content, we further develop localized products that best serve the needs for millions of students and families in the China market. 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 have been involved in other claims and legal proceedings against us relating to infringement of third parties' copyrights in materials distributed by us and the unauthorized use of a third party's name in connection with the marketing and promotion of our programs, and may be subject to further claims in the future, particularly in light of the uncertainties in the interpretation and application of intellectual property laws and regulations. Furthermore, if printed publications or other materials that we or our teachers author and/or distribute contain materials that government authorities find objectionable, these publications may have to be recalled, which could result in increased expenses, loss in revenues and adverse publicity. Any claims against us, with or without merit, could be time-consuming and costly to defend or litigate, divert our management's attention and resources or result in the loss of goodwill associated with our brand. If a lawsuit against us is successful, we may be required to pay substantial damages and/or enter into royalty or license agreements that may not be based upon commercially reasonable terms, or we may be unable to enter into such agreements at all. We may also lose, or be limited in, the rights to offer some of our programs, services and products or be required to make changes to our course materials or websites. As a result, the scope of our course materials could be reduced, which could adversely affect the effectiveness of our teaching, limit our ability to attract new students, harm our reputation and have a material adverse effect on our results of operations and financial position.

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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 our educational materials to enrich our product offerings and meet students’ needs. There can be no assurance that competitors will not independently develop similar intellectual property. If others are able to copy and use our programs and services, we may not be able to maintain our competitive position. The measures we take to protect our trademarks, copyrights and other intellectual property rights, which presently are based upon a combination of trademark, copyright and trade secret laws, may not be adequate to prevent unauthorized use by third parties. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our trademarks, copyrights and other intellectual property rights, we may lose these rights, our brand name may be harmed, and our business may suffer materially.

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

The private education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We face competition in each major program we offer and each geographic market in which we operate. For example, we face competition from companies that focus on providing K-12 after-school tutoring services, test preparation and language training services in China.

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

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

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

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

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

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

Admissions and assessment tests undergo continuous change, in terms of the focus of the subjects and questions tested, the format of the tests and the manner in which the tests are administered. These changes require us to continually update and enhance our course materials and our teaching methods. For example, on September 18, 2016, the Chinese Ministry of Education, or the MOE, promulgated the Guidance Opinions on Further Promoting the Reform of Exams and Entrance System for High Schools which promotes that the secondary school students shall participate the Secondary School Academic Proficiency Test, instead of participating in both the secondary school graduation exams and high school entrance exams, and the scores of students for certain subjects obtained in this Secondary School Academic Proficiency Test shall be taken into consideration for high school enrollment. In January 2017, the MOE promulgated new curriculum standards for the subject of science in primary schools, which took effect in the fall semester of 2017. In December 2017, the MOE issued the 2017 Curriculum Schemes and Curriculum Standards for Senior Secondary Schools, which was further amended in May 2020, and further issued the Opinions on the Implementing Work of the New Curriculums and the New Textbooks of Senior Secondary Schools in August 2018, both of which provides that the MOE developed a new nationwide senior secondary school curriculum system and organized the compilation of a group of new textbooks based on the new curriculum system, which shall be adopted in certain provinces from September 2019 and gradually expand to all other provinces by September 2022. We will adapt our tutoring programs and materials to new curriculum requirements promulgated from time to time. Any inability to track and respond to these changes in a timely and cost-effective manner would make our programs, services and products less attractive to students, which may materially and adversely affect our reputation and ability to continue to attract students without a significant decrease in course fees.

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

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

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

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

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

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

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

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

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

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

Adverse publicity concerning our failure or perceived failure to comply with legal and regulatory requirements, alleged accounting or financial reporting irregularities, regulatory scrutiny and further regulatory action or litigation could harm our reputation, result in our incurrence of substantial costs and distract our management's attention and cause the trading price of our ADSs to decline and fluctuate significantly. For example, after we issued a press release on July 17, 2012 disclosing that we were subject to the investigation by the U.S. Securities and Exchange Commission, or the SEC, and Muddy Waters LLC, an entity unrelated to us, which issued a report containing various allegations about us on July 18, 2012, the trading price of our ADSs declined sharply and we were inundated by numerous investor inquiries. In late 2016, there was negative media coverage referencing our small overseas study consulting division. The negative publicity and the resulting decline of the trading price of our ADSs also led to the filing of shareholder class action lawsuits against us and some of our senior executive officers. In addition, certain of our directors are subject to alleged class actions due to their current or previous directorships in other listed companies. Our directors and executive officers may also face litigation or proceedings (including alleged or future securities class action) unrelated to their respective capacity as a director or executive officer of our company, and such litigation or proceedings may adversely affect our public image and reputation.

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

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

Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the price of our 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.

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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 expanded our offerings through internal development and external investments. Some of these operations have not generated significant or any profit to date, and we have less experience responding quickly to changes, competing successfully and maintaining and expanding our brand in these areas without jeopardizing our brand in other areas. Consequently, there is limited operating history on which you can base your evaluation of the business and prospects of these relatively more recent operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

We routinely collect, store and use personal information during our operations. We are subject to PRC laws and regulations governing the receiving, storing, sharing, using, processing, disclosure and protection of personal information on the Internet and mobile platforms. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Online Education—Regulation Related to Internet Information Security and Privacy Protection.” The scope of these laws and regulations is evolving and further detailed implementation rules and interpretations may be promulgated. We cannot assure you that we can adapt our operations to the requirements promptly. If we fail to comply with these laws and regulations, we may be penalized by the relevant authorities and be subject to litigation against us by consumer advocacy groups or others or negative publicity, and our operations or reputation could therefore be adversely affected.

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

Terrorist attacks, geopolitical uncertainty, economic slowdown and international conflicts involving the United States, the United Kingdom and elsewhere, such as the attacks on September 11, 2001, the Boston marathon bombings on April 15, 2013, and the announcement of Brexit in June 2016, could have an adverse effect on our overseas test preparation courses and English language training courses. Recently, there have been heightened tensions in relations between the United States and China. The U.S. government has imposed, and may continue to impose, restrictions to limit the entry of certain Chinese students to pursue academic studies in the United States. Such events may discourage students from studying in the United States and elsewhere outside of China and may also make it more difficult for Chinese students to obtain visas to study abroad. 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.

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

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We will have to defend against putative shareholder class action lawsuits described in “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal and Administrative Proceedings,” including any appeals of such lawsuits should our initial defenses be unsuccessful. We are currently unable to estimate the possible outcome or loss or possible range of loss, if any, associated with the resolution of the lawsuit. In the event that our initial defense of the lawsuit is unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome, including any plaintiff’s appeal of a judgment in the lawsuit, could have a material adverse effect on our business, financial condition, results of operations, cash flows and reputation. In addition, there can be no assurance that our insurance carriers will cover all or part of the defense costs, or any liabilities that may arise from these matters. The litigation process may utilize a significant portion of our resources and divert management’s attention from the day-to-day operations of our company, all of which could harm our business. We also may be subject to claims for indemnification related to these matters, and we cannot predict the impact that indemnification claims may have on our business or financial results.

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

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or 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 economic recession globally or in the jurisdictions where we operate. If we fail to raise additional funds, we may need to reduce our growth to a level that can be supported by our cash flow. Without additional capital, we may not be able to open additional schools and learning centers, acquire necessary technologies, products or businesses, hire, train and retain teachers and other employees, market our programs, services and products, or respond to competitive pressures or unanticipated capital requirements.

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

In July 2020, we completed an offering of US\$300 million aggregate principal amount of 2.125% notes due 2025, or the 2025 Notes. If we are unable to comply with the restrictions and covenants in the trust deed in connection with the 2025 Notes, or our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the trust deed in connection with the 2025 Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, including the 2025 Notes, or result in a default under our other debt agreements, including the trust deed in connection with the 2025 Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us. The occurrence of these events may have a material adverse effect on our cash flow and liquidity.

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

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

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

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

According to the PRC fire safety laws and regulations, construction and renovation of buildings are subject to fire control approvals or fire control filings except for certain statutory exemptions. A portion of our leased properties may not fully comply with the fire control approval or fire control filing requirements. We also cannot assure you that the properties we lease in the future would fully comply with the relevant fire control laws and regulations. If our use of the leased properties is challenged by relevant government authorities for lack of fire control procedures, we may be subject to fines and may need to relocate our operations to other locations, which would incur additional expenses. If we fail to find suitable replacement sites in a timely manner or on terms acceptable to us, our business and results of operations could be materially and adversely affected.

Risks Related to Our Corporate Structure

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

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

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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."

In addition, foreign ownership in entities that provided value-added telecommunication services, with a few exceptions, is subject to restrictions under the current PRC laws and regulations. Specifically, foreign ownership of an internet information service provider may not exceed 50%, and the major foreign investor is required to have a record of good performance and operating experience in managing value-added telecommunication business. To ensure compliance with the PRC laws and regulations, our online education business is operated by our majority-owned subsidiary, Koolearn Technology Holding Limited, or Koolearn, through a series of contractual arrangements with Beijing New Oriental Xuncheng Network Technology Co., Ltd., or Beijing Xuncheng, and its subsidiaries and shareholders. These contractual arrangements enable Koolearn to (1) have power to direct the activities that most significantly affect the economic performance of Beijing Xuncheng and its subsidiaries; (2) receive substantially all of the economic benefits from Beijing Xuncheng and its subsidiaries in consideration for the services provided by Koolearn's wholly-owned subsidiaries in China; and (3) have an exclusive option to purchase all or part of the equity interests in Beijing Xuncheng, when and to the extent permitted by PRC law, or request any existing shareholder of Beijing Xuncheng to transfer all or part of the equity interest in Beijing Xuncheng to another PRC person or entity designated by us at any time in our discretion. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Beijing Xuncheng, Its Subsidiaries and Shareholders." In this annual report, we refer to New Oriental China and Beijing Xuncheng as our variable interest entities, and to New Oriental China and its schools and subsidiaries as well as Beijing Xuncheng and its subsidiaries as our consolidated affiliated entities.

Tian Yuan Law Firm, our PRC legal counsel, is of the opinion that, as of the date of this annual report:

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

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

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The Preschool Opinions also provide that private kindergartens are prohibited from listing as public companies by themselves or through packaging with other assets; and listed companies are prohibited from investing in for-profit kindergartens using funds from the capital market and acquiring for-profit kindergarten assets with stock or cash consideration. As advised by our PRC legal counsel, Tian Yuan Law Firm, the prohibition of private kindergartens from listing as public companies shall not have retrospective effect on private kindergartens that are already operated by a listed company prior to the promulgation of the Preschool Opinions, and as we have been a public company since 2006, our kindergartens do not fall within “listing as public companies by themselves or through packaging with other assets.” After the promulgation of the Preschool Opinions, we did not make investment in or acquisition of for-profit private kindergartens in a way that is prohibited by the Preschool Opinions. As of the date of this annual report, the contribution of all kindergartens is immaterial to our business.

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

We have been advised by our PRC legal 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. For example, if the relevant government authorities take a different view from ours on the Preschool Opinions and determine that our for-profit and/or non-profit kindergartens shall be excluded from our company, we may be requested to unwind the contractual arrangements for some or all of our kindergartens.

It is uncertain whether any new PRC laws, rules or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. In particular, whether and how the Foreign Investment Law promulgated in March 2019, which came into effect on January 1, 2020, will impact the viability of our current corporate structure, corporate governance and business operations. See “Risks Related to Doing Business in China—Uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance, business, financial condition and results of operations.”

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

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

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- taking other regulatory or enforcement actions that could be harmful to our business.

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

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

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

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

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

Pursuant to the equity pledge agreements among our subsidiaries in China, each of our variable interest entities and their respective shareholders, each shareholder of our variable interest entities agrees to pledge its equity interests in the variable interest entity to our subsidiaries to secure the performance by themselves and by our consolidated affiliated entities of their obligations under the relevant contractual arrangements. The equity pledges of shareholders of our variable interest entities under these equity pledge agreements have been registered with the relevant local branch of the State Administration for Market Regulation, or the SAMR. According to the PRC Property Law and PRC Guarantee Law, the pledgee and the pledgor are prohibited from making an agreement prior to the expiration of the debt performance period to transfer the ownership of the pledged equity to the pledgee. 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 any of our consolidated affiliated entities or any of the shareholders of our variable interest entities 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 our variable interest entity in an auction or private sale and remit the proceeds to our subsidiaries in China, net of related taxes and expenses. Such an auction or private sale may not result in our receipt of the full value of the equity interests in the variable interest entity. We consider it very unlikely that the public auction process would be undertaken since, in an event of default, our preferred approach is to ask our PRC subsidiary, a party to the option agreement with the shareholder of our variable interest entities, to designate another PRC person or entity to replace the shareholder pursuant to the direct transfer option we have under the option agreement.

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

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

New Oriental China is the majority shareholder of Beijing Xuncheng, holding 74.494% of Beijing Xuncheng as of May 31, 2020. New Oriental China is wholly owned by Century Friendship, a PRC domestic company which is controlled by Mr. Michael Minhong Yu, our founder and executive chairman. The interests of Mr. Yu as the controlling shareholder of the entity which owns New Oriental China may differ from the interests of our company as a whole, since Mr. Yu is only one of the beneficial owners of our company, holding 12.4% of our total common shares issued and outstanding as of September 7, 2020. We cannot assure you that when conflicts of interest arise, Mr. Yu will act in the best interests of our company or that conflicts of interests will be resolved in our favor. In addition, Mr. Yu may breach or cause New Oriental China and its schools and subsidiaries to breach or cause Beijing Xuncheng and its subsidiaries to breach or refuse to renew the existing contractual arrangements with us. Currently, we do not have existing arrangements to address potential conflicts of interest Mr. Yu may encounter in his capacity as a beneficial owner and director of New Oriental China, on the one hand, and as a beneficial owner and director of our company, on the other hand; provided that we could, at all times, exercise our option under the option agreement with Century Friendship to cause it to transfer all of its equity ownership in New Oriental China to a PRC entity or individual designated by us, and this new shareholder of New Oriental China could then appoint a new director of New Oriental China to replace Mr. Yu. In addition, if such conflicts of interest arise, Beijing Pioneer could also, in the capacity of Century Friendship's attorney-in-fact as provided under the proxy agreement and power of attorney, directly appoint a new director of New Oriental China to replace Mr. Yu. We rely on Century Friendship and Mr. Yu to comply with the laws of China, which protect contracts, including the contractual arrangements New Oriental China and its schools and subsidiaries and its shareholder have entered into with us, which provide that directors and executive officers owe a duty of loyalty to our company and require them to avoid conflicts of interest and not to take advantage of their positions for personal gains. We also rely on Mr. Yu to abide by the laws of the Cayman Islands, which provide that directors have a duty of care and a duty of loyalty to act honestly in good faith with a view to our best interests. However, the legal frameworks of China and the Cayman Islands do not provide guidance on resolving conflicts in the event of a conflict with another corporate governance regime. If we cannot resolve any conflicts of interest or disputes between us and Century Friendship and Mr. Yu, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

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

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

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

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to the department heads of the legal, administrative or finance departments. Our designated legal representatives generally do not have access to the chops. Although we monitor our employees, including the designated legal representatives of our PRC subsidiaries and our consolidated affiliated entities, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees or designated legal representatives could abuse their authority, for example, by binding the relevant subsidiary or consolidated affiliated entity with contracts against our interests, as we would be obligated to honor these contracts if the other contracting party acts in good faith in reliance on the apparent authority of our chops or signatures of our legal representatives. If any designated legal representative obtains control of the chop in an effort to obtain control over the relevant entity, we would need to have a shareholder or board resolution to designate a new legal representative and to take legal action to seek the return of the chop, apply for a new chop with the relevant authorities, or otherwise seek legal remedies for the legal representative's misconduct. If any of the designated legal representatives obtains and misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve while distracting management from our operations.

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

The principal regulations governing private education in China are the Law for Promoting Private Education, or the Private Education Law, and the Implementation Rules for the Law for Promoting Private Education, or the Implementation Rules.

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

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On November 7, 2016, the Standing Committee of the National People’s Congress amended the Private Education Law, or the Amended Private Education Law, which took effect on September 1, 2017. Under the Amended Private Education Law, the term “reasonable return” is no longer used, and sponsors of private schools may choose to establish non-profit or for-profit private schools at their own discretion, except that private schools in compulsory education area can only be registered as non-profit private schools. Sponsors of for-profit private schools are entitled to retain the profits from their schools and the operating surplus may be allocated to the sponsors pursuant to the PRC Company Law 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—Regulations on Private Education—The Law for Promoting Private Education and Its Implementation Rules.” Other than certain of our kindergartens, and our compulsory-education schools that are required to be non-profit schools under the Amended Private Education law, we intend to register all of our schools as for-profit private schools to the extent practicable under the relevant local rules and regulations. However, as of the date of this annual report, only certain local governments have promulgated specific measures for registration of pre-existing private schools. Furthermore, even for those places where specific measures for registration of pre-existing private schools have been promulgated, some local government authorities in practice have not started to accept application for registration of pre-existing private schools as for-profit schools. Therefore, we cannot assure you that our pre-existing private schools can all apply for and complete registration as for-profit schools in a timely manner, or at all. Also, as measures for registration of pre-existing private schools in many provinces are yet to be introduced, we also cannot assure you whether there will be other risks associated with such registration.

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

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

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

Further, the PRC government authorities have recently issued several regulations aiming to strength its regulation of after-school training institutions. These regulations and implementation rules provide a series of requirements in the operation of after-school tutoring business, which include, among others: (1) key course information, including subjects, course schedules and course syllabi, for school academic subjects courses, shall be filed with the local education administration authorities and made publicly available, and the progress of the courses shall not surpass the progress of local primary schools and secondary schools for the same period; (2) training classes shall not be scheduled in conflict with the regular schooling time in local primary schools and secondary schools; (3) tutoring activities shall end before 8:30 p.m.; (4) homework shall not be assigned; (5) scored examination, competition or ranking in connection with the courses of primary schools or secondary schools shall not be arranged; (6) tuition fees for a period spanning more than three months should not be collected at one time; (7) no fees, other than those that have been made public, and no compulsory fund-raising in any name, may be made to students; (8) student safety insurance shall be purchased by the after-school tutoring institutions; (9) teaching staff who teach Chinese, mathematics, foreign language, physics, chemistry and other subjects in the compulsory education system as well as academic subjects related to the entering of higher education and their extension training shall have requisite teacher qualifications; and (10) public school teachers shall not be employed by after-school tutoring institutions. In addition, the PRC government authorities have issued regulations on online after-school tutoring activities that restate certain requirements that apply to all after-school tutoring institutions and further provide certain specific requirements for online after-school tutoring institutions. See “Item 4. Information on the Company—B. Business Overview—Regulation” for more information. We are continuously making efforts to comply with the requirements under these regulations and implementations. However, we cannot assure you that we will be able to comply with such requirements in a timely manner, or at all. If we fail to comply with these requirements and any other applicable regulatory requirements, we may be subject to fines, regulatory orders to suspend our operations or other regulatory and disciplinary sanctions, which may materially and adversely affect our business and results of operations.

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

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

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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.

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

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

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

We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be filing and reporting to the PRC Ministry of Commerce or its local counterparts. We are unlikely, however, to finance the activities of New Oriental China and its schools and subsidiaries by means of capital contributions due to regulatory issues related to foreign investment in domestic PRC entities, as well as the licensing and other regulatory issues. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises, or SAFE Circular 19, effective in June 2015, in replacement of former regulations. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of bank loans that have been transferred to a third-party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether in practice SAFE will permit such capital to be used for equity investments in China. SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account, or SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the limitation on the use of RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company from prohibiting using such capital to issue RMB entrusted loans to prohibiting using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in China. On October 23, 2019, SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment, or the SAFE Circular 28, which, among other things, allows all foreign-invested companies to use RMB converted from foreign currency-denominated capital for equity investments in China, for so long as there is a truthful equity investment, and such equity investment does not violate applicable laws and complies with the negative list on foreign investment. See also "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. 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.

Risks Related to Doing Business in China

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

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

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

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. The growth rate of the Chinese economy has gradually slowed since 2010, and the impact of COVID-19 on the Chinese economy in 2020 is likely to be severe. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

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

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

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

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

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

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

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law, which came into effect on January 1, 2020 and replaced 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.

As it is relatively new, uncertainties still exist in relation to its interpretation and implementation, and failure to take timely and appropriate measures to comply with the Foreign Investment Law and relevant rules could result in material and adverse effects on us. For instance, although the Foreign Investment Law does not explicitly classify contractual arrangements as a form of foreign investment, it contains a catch-all provision under the definition of "foreign investment," which includes investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to be promulgated by the State Council to provide for contractual arrangements as a form of foreign investment, at which time it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment in the PRC and, if so, how our contractual arrangements will be dealt with. In addition, if future laws, administrative regulations or provisions to be prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. In the worst case scenario, we may be required to unwind our existing contractual arrangements and/or dispose of the relevant business operations, which could have a material and adverse effect on our current corporate structure, corporate governance, business, financial condition and results of operations.

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

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

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.

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Under PRC laws and regulations, training schools are required to obtain a number of licenses, permits and approvals from, and make filings or complete registrations with, relevant government authorities in order to provide tutoring services. Pursuant to the Amended Private Education Law and the Draft Amended Implementation Rules, training schools, in particular those providing K-12 after school tutoring services, shall obtain the private school operation permit. The State Council Circular 80 further requires the learning centers of a training school providing K-12 after school tutoring services to make filings with the relevant education authorities. Our business is also subject to various health, safety and other regulations that affect various aspects of our business and we must obtain various licenses and permits under these regulations for our operations. We have been making efforts to ensure compliance with applicable rules and regulations in all material respects. In addition, we follow internal guidelines to make necessary registrations and filings and obtain necessary licenses and permits on a timely basis. However, we may not be able to obtain and maintain all requisite licenses, permits, approvals and filings or pass all requisite assessments. There is also no assurance that such permits will be renewed on a timely basis, or at all. If we fail to comply with applicable legal requirements, we may be subject to fines, confiscation of the gains derived from our noncompliant operations or the suspension of our noncompliant operations, which may materially and adversely affect our business and results of operations.

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

SAFE issued a notice in July 2014, which replaced the previous notice issued in October 2005. The 2014 SAFE notice requires PRC domestic residents, including both PRC domestic institutions and PRC domestic individual residents, to register with the local SAFE branch, currently with local bank according to Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment issued by SAFE on February 13, 2015, before establishing or controlling any company outside of China with the domestic or overseas assets or equity they legally hold for the purpose of investment, financing or conducting roundtrip investment. Such a company located outside of China is referred to in the notice as an "offshore special purpose company." 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, and the NDRC Circular 11 establish certain procedures for our offshore investing activities, which could make it more difficult for us to pursue growth through acquisitions in and outside China.

In August 2006, the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration of Taxation, or the SAT, the State Administration for Market Regulation, 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, which was amended on June 22, 2009. The M&A Rules establish procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise. We may expand our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Further, pursuant to the Circular 11 issued by the NDRC, outbound investment via the overseas enterprises controlled by PRC residents are subject to verification and approval, record-filing and reporting requirements to the NDRC. According to Circular 11, sensitive projects, such as outbound investment in real estate, hotels, news media, cinemas or sports club, carried out by overseas enterprises controlled by PRC residents shall obtain verification and approval from the NDRC prior to the implementation of the project. The non-sensitive projects carried out by the overseas enterprise directly controlled by PRC residents, including by means of making asset or equity investment by companies established for financing and investing, such as fund institutions, or providing financing or guarantee, shall complete record-filing with the competent authority prior to the implementation of such project. The non-sensitive projects carried out by the overseas enterprise indirectly controlled by PRC residents with the investment amount over USD300 million shall be reported to the NDRC of relevant information by submitting an information reporting form for large-amount non-sensitive projects. See “Item 4. Information on the Company—B. Business Overview—Regulation—Administrative Measures for Outbound Investment by Enterprises” for more details on Circular 11. If we fail to comply with rules in Circular 11, we may be subject to warnings, project to be suspended for implementation or rectification within a specified time limit.

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

The economy of China has been experiencing increases in labor costs in recent years and the average wage in the PRC is expected to continue to grow. The average wage level for our employees has also increased in recent years. We expect that our labor costs, including wages and employee benefits, will continue to increase. Unless we are able to pass on these increased labor costs to our students by increasing prices for our services, our profitability and results of operations could be materially and adversely affected.

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

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

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

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

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

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

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on your investment.

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

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

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A “high and new technology enterprise” is entitled to a favorable enterprise income tax rate of 15% and such qualification is reassessed by relevant governmental authorities every three years. Five of our wholly-owned subsidiaries in China, including Beijing Pioneer Technology Co., Ltd., or Beijing Pioneer, Beijing Smart Wood Co., Ltd., or Beijing Smart Wood and three other subsidiaries, are qualified as “high and new technology enterprises.” Beijing Hewstone Technology Co., Ltd., or Beijing Hewstone, Beijing Decision Education & Consulting Co., Ltd., or Beijing Decision and other two wholly owned subsidiaries in China, are in the process of renewing their qualification of “high and new technology enterprises.” Once the renewals are completed, these subsidiaries will be eligible for a favorable enterprise income tax rate of 15% starting from January 1, 2020. Beijing New Oriental Dogwood Cultural Communications Co., Ltd., a subsidiary of our variable interest entity New Oriental China, and Kuxue Huisi Network Technology Co., Ltd, a subsidiary of our variable interest entity Beijing Xuncheng, are also qualified as “high and new technology enterprises.” Beijing Xuncheng, our variable interest entity, is also in the process of renewing its qualification of “high and new technology enterprises.” Once the renewal is completed, Beijing Xuncheng will be eligible for a favorable enterprise income tax rate of 15% starting from January 1, 2020. An enterprise that qualifies as a “software enterprise” is exempt from enterprise income tax for the two years beginning in the enterprise’s first profitable year and then is entitled to a reduced tax rate of 12.5% for the succeeding three years. Four of our wholly-owned subsidiaries in China, Beijing Jinghong Software Technology Company Limited or Beijing Jinghong, Beijing Zhiyuan Hangcheng Technology Company Limited or Beijing Zhiyuan Hangcheng, and other two subsidiaries are qualified as “software enterprises.” See “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxation—PRC.”

Before September 1, 2017, under the Private Education Law and its Implementation Rules, private schools that do not require reasonable returns enjoy the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools requiring reasonable returns shall be separately formulated by the relevant authorities under the State Council. To date, no regulations have been promulgated by the relevant authorities with regard to the preferential income tax treatment applicable to private schools requiring reasonable returns. As of May 31, 2020, 18 of our schools elected as schools not requiring reasonable returns, 39 of our schools elected as schools requiring reasonable returns and the remaining schools were not classified or registered as companies.

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

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

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

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

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

Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises,” and will generally be subject to the uniform 25% enterprise income tax rate for their global income. Although the term “de facto management bodies” is defined as “management bodies which has substantial and overall management and control power on the operation, human resources, accounting and assets of the enterprise,” the circumstances under which an enterprise’s “de facto management body” would be considered to be located in China are currently unclear. The SAT has issued a circular providing that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management bodies” located within China if the following requirements are satisfied: (1) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (3) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (4) at least half of the enterprise’s directors or senior management with voting rights reside in the PRC.

In addition, the SAT issued a bulletin to provide more guidance on the implementation of the above circular. The bulletin clarified certain matters relating to resident status determination, post determination administration and competent tax authorities. It also specifies that when provided with a copy of a PRC tax resident determination certificate from a resident PRC-controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the PRC-sourced dividends, interest and royalties to the PRC-controlled offshore incorporated enterprise. Moreover, the SAT issued a bulletin in January 2014, to provide more guidance on the implementation of the above circular. This bulletin further provided that, among other things, an entity that is classified as a “resident enterprise” in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors registered. From the year in which the entity is determined as a “resident enterprise,” any dividend, profit and other equity investment gain shall be taxed in accordance with the Article 26 of EIT law and the Article 17 and Article 83 of its implementation rules. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in the bulletin may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax residency status of offshore enterprises and how the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals.

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

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

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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, 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.

In February 2015, the SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, or Bulletin 7. Pursuant to Bulletin 7, an “indirect transfer” of PRC assets, including a transfer of equity interests in an unlisted non-PRC holding company of a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of the underlying PRC assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Bulletin 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

According to Bulletin 7, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. On October 17, 2017, the SAT issued the Announcement of the State Administration of Taxation on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or Bulletin 37, which came into effect and superseded Circular 698 on December 1, 2017. The Bulletin 37 further clarifies the practice and procedure of the withholding of nonresident enterprise income tax.

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

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

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

However, we cannot assure that the competent PRC government authorities will not subsequently take a contrary view, especially in light of new regulatory developments. If the government authorities determine that our online tutoring services fall within the scope of business operations that require the above-mentioned licenses or other licenses or permits, we may not be able to obtain such licenses or permits on reasonable terms or in a timely manner or at all, and failure to obtain such licenses or permits may subject us to fines, legal sanctions or an order to suspend our online tutoring services.

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

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

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

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

On April 21, 2020, the SEC and the PCAOB issued another joint statement reiterating the greater risk that disclosures will be insufficient in many emerging markets, including China, compared to those made by U.S. domestic companies. In discussing the specific issues related to the greater risk, the statement again highlights the PCAOB’s inability to inspect audit work paper and practices of accounting firms in China, with respect to their audit work of U.S. reporting companies. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

On June 4, 2020, the U.S. President issued a memorandum ordering the President’s Working Group on Financial Markets, or the PWG, to submit a report to the President within 60 days of the memorandum that includes recommendations for actions that can be taken by the executive branch and by the SEC or PCAOB on Chinese companies listed on U.S. stock exchanges and their audit firms, in an effort to protect investors in the U.S.

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On August 6, 2020, the PWG released a report recommending that the SEC take steps to implement the five recommendations outlined in the report. In particular, to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfill its statutory mandate, or NCJs, the PWG recommends enhanced listing standards on U.S. stock exchanges. This would require, as a condition to initial and continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in NCJs may satisfy this standard by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. The report permits the new listing standards to provide for a transition period until January 1, 2022 for listed companies. If we fail to meet the new listing standards before the deadline specified thereunder due to factors beyond our control, we could face possible de-listing from the NYSE, deregistration from the SEC and/or other risks, which may materially and adversely affect, or effectively terminate, our ADS trading in the United States.

This lack of the PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and our investors are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our reported financial information and the quality of our financial statements.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular China's, in June 2019, a bipartisan group of lawmakers introduced bills in both houses of the U.S. Congress, which if passed, would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The proposed Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges of issuers included on the SEC's list for three consecutive years. On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act, or the "Kennedy Bill." On July 21, 2020, the U.S. House of Representatives approved its version of the National Defense Authorization Act for Fiscal Year 2021, which contains provisions comparable to the Kennedy Bill. If either of these bills is enacted into law, it would amend the Sarbanes-Oxley Act of 2002 to direct the SEC to prohibit securities of any registrant from being listed on any of the U.S. securities exchanges or traded "over-the-counter" if the auditor of the registrant's financial statements is not subject to PCAOB inspection for three consecutive years after the law becomes effective. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of the ADSs could be adversely affected, and we could be delisted if we are unable to cure the situation to meet the PCAOB inspection requirement in time. It is unclear if this proposed legislation would be enacted. Furthermore, there has been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have material and adverse impact on the stock performance of China-based issuers listed in the United States, including ours.

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

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

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In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including our independent registered public accounting firm. A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching Section 106 requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or, in extreme cases, the resumption of the current proceeding against all four firms. If additional remedial measures are imposed on the PRC-based "big four" accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

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

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

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

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

Risks Related to Our ADSs

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

The market price of our ADSs has been and is and is likely to continue to be volatile and could fluctuate widely in response to a variety of factors, many of which are beyond our control. The market price of our 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,

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

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 will be influenced by the research reports and ratings that securities or industry analysts or ratings agencies publish about us, our business and the private education market in China in general. We do not have any control over these analysts or agencies. If one or more of the analysts or agencies who cover us downgrades us or our securities, the price of our 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.

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

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying common shares represented by the ADSs in accordance with the provisions of the deposit agreement. Under our memorandum and articles of association, the minimum notice period required to convene a general meeting is seven days. When a general meeting is convened, holders of ADSs may not receive sufficient notice of a shareholders' meeting to permit withdrawal of the underlying common shares represented by their ADSs to allow them to cast their votes with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to holders of ADSs or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of ADSs in a timely manner, but we cannot assure that holders of ADSs will receive the voting materials in time to ensure that they can instruct the depositary to vote their ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of ADSs may not be able to exercise their right to vote and may lack recourse if the common shares underlying their ADSs are not voted as they requested. In addition, holders of ADSs will not be able to call a shareholders' meeting.

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

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to holders of our ADSs in the United States unless we register both the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Under the deposit agreement for the ADSs, the 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.

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

Our 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.

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

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 within China. As a result, it may be difficult for shareholders to effect service of process within the United States in the event that they believe that their rights have been infringed under the U.S. federal securities laws or otherwise. Even if shareholders are successful in bringing an action of this kind, the laws of the Cayman Islands and of the PRC may render shareholders unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments).

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

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

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2020 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.

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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 the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce passive income or are held for the production of passive income.

Although the law in this regard is unclear, we treat our VIEs (including their subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate these entities’ operating results in our combined financial statements. If it were determined, however, that we are not the owner of our VIEs (including their subsidiaries) for U.S. federal income tax purposes, we may be or become a PFIC. Assuming that we are the owner of our VIEs (including their subsidiaries) for U.S. federal income tax purposes, and based upon an analysis of our company’s income and assets in respect of the 2020 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, 2020. 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. Because rules and PFIC status is a fact-intensive determination made on an annual basis, no assurance can be given that we are not or will not become classified as a PFIC.

If we were to be classified as a PFIC in any taxable year, a U.S. Holder (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 will generally continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or common shares. U.S. Holders of our ADSs or common shares are urged to consult their tax advisors concerning the United States federal income tax consequences if we are or become classified as a PFIC. See “Item 10. Additional Information—E. 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 Mr. 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 23, 2006, our shareholders approved the change of our offshore holding company's corporate domicile to the Cayman Islands, and upon completion of registration by way of continuation with the Registrar of Companies of the Cayman Islands on March 16, 2006 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.

Beijing Xuncheng, a then majority-owned subsidiary of New Oriental China, which operates our several online education platforms together with its subsidiaries, one of which is koolearn.com, listed its shares on the National Equities Exchange and Quotations in China for trading from March 21, 2017 to February 14, 2018 whereby it completed a voluntary delisting from the National Equities Exchange and Quotations. Subsequent to its delisting, Beijing Xuncheng went through a series of restructuring transactions and became a variable interest entity controlled by Koolearn Technology Holding Limited, or Koolearn, a majority-owned subsidiary of our offshore holding company. On March 28, 2019, Koolearn completed its initial public offering and the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited.

In October 2018, we announced a share repurchase program, pursuant to which we were authorized to repurchase our own common shares or ADSs with an aggregate value of up to US\$200 million during the period from October 29, 2018 through May 31, 2019. Under such share repurchase program, we repurchased an aggregate of 952,000 ADSs for US\$56.0 million on the open market at a weighted average purchase price of US\$58.78 per ADS.

In July 2020, we completed an offering of US\$300 million aggregate principal amount of 2.125% notes due 2025, or the 2025 Notes. We received net proceeds from the offering of the 2025 Notes of approximately US\$297.1 million, after deducting joint bookrunners' commissions and estimated offering expenses.

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 91 cities in China.

The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. You can also find information on our website at <http://investor.neworiental.org>. The information contained on our website is not a part of this annual report.

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B. [Business Overview](#)

Our Network

We deliver our comprehensive educational programs, services and products to students across China through our nationwide physical network of schools, learning centers and bookstores, as well as our pure-play online learning platforms. As of May 31, 2020, we had a physical network of 104 schools and 1,361 learning centers in 91 cities and approximately 41,400 teachers. We deliver online courses through our online learning platforms, including Koolearn.com, our comprehensive online education services platform; DFUB, our live interactive K-12 tutoring service tailored to students in lower-tier cities; and Donut, our online live English classroom courses for preschoolers. Powered by our OMO system, we have combined our offline network with online technologies and adopted different business models tailored to students in different locations to facilitate our operational efficiency. For example, for students in tier 1 cities, we primarily deliver courses in offline classroom settings, supported with interactive online learning components. For students in lower tier cities, we have adopted a dual-teacher model, where we broadcast courses delivered by well-known teachers from top-tier cities through our OMO system and have local assistant lecturers monitor and provide in-person guidance and interactions with students onsite. The dual-teacher model provides students in lower tier cities with access to top quality teachers in other cities with greater flexibility in terms of course schedule.

We distribute and sell books and other educational materials developed or licensed by us through our distribution channels, which consist of bookstores operated by us and third-party distributors. As of May 31, 2020, we had 12 bookstores operated by us, and 131 third-party distributors, who provided us with access to a nationwide network of online and offline bookstores. In addition, we have an extensive network of students and alumni, who we believe have been essential in helping us promote our brand and our programs, services and products by word-of-mouth referrals.

Almost all of our schools, learning centers and self-operated bookstores are operated under our “New Oriental” brand. Our schools in major cities consist of classrooms and administrative facilities with full student and administrative services, while our schools in satellite cities and our learning centers consist primarily of classroom facilities and limited course registration and management capabilities. We select new locations for our schools and learning centers based on various factors, including demographics, the number of schools or colleges in, and the economic condition of, the particular region. We have opened bookstores in some of our established schools to sell educational materials relating to our courses and also sell self-help, know-how, inspirational and other books.

The following table sets forth information about the locations of our schools, learning centers and bookstores as of May 31, 2020.

<u>City</u>	<u>Number of Schools</u>	<u>Number of learning centers</u>	<u>Number of bookstores</u>
Beijing	6	111	1
Shanghai	1	69	1
Guangzhou	1	49	1
Wuhan	1	58	1
Yangzhou	3	2	—
Tianjin	1	41	—
Xi'an	1	48	1
Nanjing	3	51	—
Shenyang	1	20	—
Chongqing	1	31	1
Chengdu	1	44	—
Shenzhen	1	21	—
Xiangyang	1	15	—
Taiyuan	1	35	—
Haerbin	1	16	1
Changsha	1	41	—
Jinan	1	30	—
Zhengzhou	1	41	—

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<u>City</u>	<u>Number of Schools</u>	<u>Number of learning centers</u>	<u>Number of bookstores</u>
Hangzhou	1	79	—
Changchun	3	21	1
Shijiazhuang	1	20	—
Suzhou	2	60	1
Zhuzhou	1	3	—
Anshan	1	0	—
Hefei	1	63	—
Kunming	1	12	—
Wuxi	1	21	—
Foshan	1	10	—
Fuzhou	1	30	—
Yichang	1	5	—
Nanchang	1	45	—
Jingzhou	1	3	—
Dalian	1	6	1
Lanzhou	1	12	1
Huangshi	1	3	—
Ningbo	1	11	—
Xiamen	1	27	—
Qingdao	2	30	—
Nanning	1	20	—
Xuzhou	1	6	—
Xiangtan	1	3	—
Zhenjiang	1	4	—
Luoyang	1	12	—
Nantong	1	6	—
Jilin	1	10	—
Guiyang	1	7	—
Hohhot	1	10	1
Tangshan	1	12	—
Urumqi	1	8	—
Shiyan	1	4	—
Quanzhou	1	4	—
Wenzhou	1	11	—
Weifang	1	5	—
Zhuhai	1	4	—
Jinzhou	1	7	—
Baoding	1	4	—
Yantai	1	6	—
Taian	1	—	—
Kaifeng	1	1	—
Cangzhou	1	—	—
Qinhuangdao	1	—	—
Anyang	1	—	—
Handan	1	1	—
Zhangzhou	1	1	—
Nanyang	1	1	—
Zhongshan	1	—	—
Yinchuan	1	1	—
Shaoxing	1	8	—
Huzhou	1	1	—
Hong Kong	1	—	—
Yancheng	1	2	—
Lianyungang	1	1	—
Jiaozuo	1	6	—

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<u>City</u>	<u>Number of Schools</u>	<u>Number of learning centers</u>	<u>Number of bookstores</u>
Dongguan	1	—	—
Haikou	1	1	—
Yiwu	1	2	—
Jinhua	1	4	—
Xining	1	1	—
Mianyang	1	—	—
Xinxiang	1	—	—
Baotou	1	—	—
Changshu	1	3	—
Yuci	1	—	—
Chengde	1	—	—
Huizhou	1	—	—
Zhangjiagang	1	—	—
Hebi	1	—	—
Zhumadian	1	—	—
Weihai	1	—	—
Xuchang	1	—	—
Xingtai	1	—	—
Total	<u>104</u>	<u>1,361</u>	<u>12</u>

Our Programs, Services and Products

We provide a wide variety of educational programs, services and products. We deliver education to our students in traditional classroom settings, in a combination of online and offline classroom setting with our dual-teacher model, and through our pure-play online platforms. Other than our primary and secondary schools and kindergartens, our classroom-based courses are generally designed to be completed in 2 to 16 weeks. Course fees are determined based on factors such as the length of the course, the size and the subject of the class, and the geographic location of the school. We offer flexible class sizes for our courses, including larger classes that range from 6 to 50 students per class and small class tutoring that range from one to five students per class. Our program, service and product offerings are generally divided into seven areas: K-12 after-school tutoring; test preparation; language training for adults; pre-school, primary and secondary schools; education materials and distribution; online education; and other services. The following table provides a list of our current course offerings:

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	Kindergarten	Elementary School					Middle School			High School			Higher Education	
		1	2	3	4	5	6	7	8	9	10	11		12
After-school tutoring														
Science	★	★	★	★										
Arts	★	★	★	★	★	★	★							
Robotics	★	★	★	★	★	★	★	★	★	★				
Mathematics	★	★	★	★	★	★	★	★	★	★	★	★	★	★
English	★	★	★	★	★	★	★	★	★	★	★	★	★	★
Chinese	★	★	★	★	★	★	★	★	★	★	★	★	★	★
Physics								★	★	★	★	★	★	★
Chemistry								★	★	★	★	★	★	★
Biology								★	★	★	★	★	★	★
History								★	★	★	★	★	★	★
Geography								★	★	★	★	★	★	★
Political Science								★	★	★	★	★	★	★
Overseas test preparation														
TOEFL		★	★	★	★	★	★	★	★	★	★	★	★	★
IELTS								★	★	★	★	★	★	★
PTE								★	★	★	★	★	★	★
SSAT				★	★	★	★	★	★	★				
SAT									★	★	★	★	★	★
ACT									★	★	★	★	★	★
IGCSE										★	★			
AP											★	★	★	★
SAT2											★	★	★	★
A-Level												★	★	★
IBDP												★	★	★
GRE														★
GMAT														★
LSAT														★
Domestic test preparation														
CET-4 and CET-6														★
PRC Postgraduate Entrance Exam														★
Adult English training														★
Other foreign language training														★

K-12 After-School Tutoring Courses

We entered into the K-12 after school tutoring sector in the early 2000s. K-12 after-school tutoring courses refer to courses offered in our New Oriental Primary and Secondary School All Subjects Program (formerly known as the “Pop Kids All Subjects” program for kindergarten and primary school students and “New Oriental U-Can All Subjects” program for middle and high school students), which currently covers all academic subjects for kindergarten and primary school students, as well as middle and high school students.

After-School Tutoring Courses for Middle School and High School Students. Given the intense competition to gain admission into top high schools and higher education institutions in China, exam scores can be a deciding factor in gaining admission. Our after-school tutoring courses for middle school and high school students are designed to supplement students’ regular school curricula and help students improve their exam scores.

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English proficiency is tested as a major subject of entrance exams for admission into China's high schools, colleges and universities. We first established our English after-school training program for middle and high school students in the early 2000s. In March 2008, we launched our "New Oriental U-Can All Subjects" training program, which covers all academic subjects for middle and high school in China and targets students from ages 13 to 18 who are preparing for the high school entrance examination in China, known as "zhongkao," and the college entrance examination, known as "gaokao." Gaokao is required for admission to bachelor's degree programs and most associate degree programs at Chinese colleges and universities. Students take our courses in affordable larger classes that typically range from 20 to 40 students per class, as well as higher priced small class tutoring, in particular, 1-on-1 tutoring. Our flexible class sizes enable us to meet the diversified education needs of students and capture a greater market share in the K-12 after-school tutoring market in China.

Our typical after-school tutoring courses for middle school and high school students last for 2 to 16 weeks with classroom instruction one to seven times per week for 1.5 to 4 hours per class. We also offer more intensive and condensed versions of our courses, in particular during the summer months when many academic institutions are on summer break.

In our fiscal year ended May 31, 2020, we had approximately 5,296,000 student enrollments in our after-school tutoring courses for middle school and high school students. Course fees for our all subject after-school tutoring courses for middle school and high school students range from approximately RMB500 to approximately RMB5,500 per course.

After-School Tutoring Courses for Children. English is a major subject in primary schools. We established our English for children program in the early 2000s for children in kindergarten and primary school. We designed this program based upon the following principles: (1) we use localized materials originally published by international education content providers and publishers while taking into account the local public schools' curricula, and the skills and abilities of the individual student and adapting to his or her particular needs; (2) we assist students in mastering the basics of the language in various fun ways, including interactive games, activities and cultural studies; and (3) we help children develop a passion for learning the language and guide and inspire them to develop their self-learning abilities. In 2008, we launched our "Pop Kids All Subjects" training program, which includes after-school tutoring courses in English, Chinese, math, writing, music and arts for children in kindergarten and primary schools. In 2019, we grouped our "Pop Kids All Subjects" training program together with our "New Oriental U-Can All Subjects" program under "New Oriental Primary and Secondary School All Subjects" program.

We continuously seek to optimize our programs and services through technology development. For example, we developed our innovative English listening and speaking learning app, which combines our English teaching experience with AI-powered voice evaluation technology to help children improve their English listening and speaking skills and improve test scores.

Our after-school tutoring courses for kindergarten and primary school students are typically divided into classes of approximately 8 to 24 students per class. Students attend class approximately one time per week for 2 to 3 hours per class. We test our students to evaluate their learning progress and make sure they are progressing as needed to advance to the next book and class level without jeopardizing the fundamentals that will allow them to excel in the future.

In our fiscal year ended May 31, 2020, we had approximately 4,444,000 student enrollments in our after-school tutoring courses for children. Course fees for these courses range from approximately RMB300 to approximately RMB4,000 per course.

Test Preparation Courses

We began offering TOEFL preparation courses in 1993. We have evolved to provide a wide range of test preparation courses to students taking language and entrance exams used by educational institutions in the United States, the PRC and Commonwealth countries. Our overseas test preparation courses primarily include IELTS, TOEFL, SAT, SSAT, ACT, GRE, GMAT and LSAT preparation courses and our PRC test preparation courses primarily include CET 4, CET 6 and National Tests for Entrance into Master's Degree Programs.

Our test preparation courses focus on quality instruction and test-taking techniques designed to help students achieve high scores on the admissions and assessment tests. We recognize that students begin test preparation at different levels, have different strengths and weaknesses, and learn at different rates. We offer a range of basic and advanced test preparation courses tailored to students at different levels.

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In our fiscal year ended May 31, 2020, we had approximately 502,000 student enrollments in our test preparation courses, of which approximately 289,000 were in overseas test preparation courses, and 213,000 were in PRC test preparation courses. Our test preparation courses generally range from 6 to 40 students per class. We also have students from our overseas test preparation courses that take our small class, in particular 1-on-1, tutoring courses. Our students typically enroll in a 50 to 360 hour program with classes meeting one to six times per week for approximately 1 to 3 hours per class. We also offer intensive and condensed versions of our courses, which are compacted into shorter time periods. Course fees for our test preparation courses range from approximately RMB1,500 to RMB49,800 per course, as overseas test preparation courses generally have higher course fees.

Language Training Courses for Adults

We mainly provide various types of English language training courses, and to a lesser extent, training courses for other foreign languages, including German, Japanese, French, Korean, Italian and Spanish.

Our English for adults program offers courses are primarily designed to teach and improve students' English writing, reading, listening and speaking skills. Our typical English course for adults lasts for 1 to 16 weeks with classroom instruction 1 to 5 times per week for 1.5 to 3.5 hours per class. We also offer more intensive and condensed versions of our courses. The class size of our English courses for adults typically range from approximately 6 to 40 students per class. Our other foreign language courses for adults consist of proficiency lessons and test preparation courses for language certification exams.

In our fiscal year ended May 31, 2020, we had approximately 40,000 student enrollments in our English courses for adults. Course fees for our English courses for adults range from approximately RMB400 to approximately RMB7,600 per course.

Pre-school, Primary and Secondary Schools

We established our first full-time private primary and secondary school in Yangzhou in 2002. Our Yangzhou school is a private boarding school for students in grades 1 to 12 seeking a full curriculum, with a strong emphasis on English language training. As of May 31, 2020, there were over 3,400 students and over 369 teachers and 242 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, 2020, tuition, including boarding fees, at the Yangzhou school ranged from RMB26,000 to RMB100,800 per year. Following the success of Yangzhou school, we opened an international high school in Beijing in July 2010. In our fiscal year ended May 31, 2020, tuition, including boarding fees, at our international high school in Beijing ranged from RMB126,800 to RMB184,700 per year. We established our pre-school business with the opening of our first kindergarten in Beijing in September 2007. We subsequently opened four more kindergartens in four cities and acquired three kindergarten chains in three cities.

Educational Materials and Distribution

We develop and edit educational materials for language training and test preparation and distribute these materials through various distribution channels, consisting of our bookstores as well as third-party distributors. In our fiscal year ended May 31, 2020, we developed and edited approximately 260 titles and distributed approximately 17.1 million books authored or licensed by us in China. Most of the materials distributed by us are education-related and include the materials that we use in our courses and titles that we market for use in different education areas.

Our extensive distribution channels have attracted international education content providers to cooperate with us in distributing localized versions of their materials in China. For example, we have worked with Cambridge University Press, Oxford University Press, Educational Testing Service, Cengage Learning, the Northern Consortium (NCUK) and other education content providers in distributing their education materials in China. With access to such high-quality education content, we further develop localized products that best serve the needs for millions of students and families in the China market.

Online Education

We commenced our online education services in 2005 through the Koolearn.com platform as one of the earliest online education providers in China. We have since evolved into a comprehensive online education services provider under Koolearn Technology Holding Limited, our majority-owned subsidiary, and offer comprehensive online education courses to students through our pure-play online learning platforms, including Koolearn.com, DFUB, and Donut. We provide a wide spectrum of courses to students in three core categories—college education, K-12 education and pre-school education. We offer our courses and programs in multiple formats, including live and pre-recorded courses in different class sizes.

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College education. We launched online college education services in 2005 through our Koolearn.com platform. Our college educational services primarily include college test preparation, overseas test preparation, and English language learning, targeted to college students and working professionals preparing for standardized tests or seeking to improve their English language proficiency.

K-12 education. We launched online K-12 course offerings in 2015 through our Koolearn.com platform. Our K-12 educational services comprise after-school tutoring courses which cover the majority of standard school subjects from primary to high school in China, and test preparation courses designed for standardized college and high school entrance exams. To further penetrate our services to lower-tier cities, we also launched our innovative DFUB courses in 2017. DFUB is a live interactive tutoring service targeting students in lower-tier cities where offline infrastructure may not be as convenient and there is growing demand for an effective online platform accessible anytime, anywhere.

Pre-school education. We launched our online pre-school education through our Donut app series in 2012, which provides children with child-friendly online educational content. We launched our Donut live online classroom in 2017.

In addition, we also use our online education modules to provide educational content packages to schools and institutional customers such as universities, public libraries, telecom operators and online video streaming providers.

Other Services

Overseas Studies Consulting. Our consultants help students through the application and admission process for overseas educational institutions and provide useful college, graduate and career counseling advice to help students make informed decisions. We also counsel and assist students with the immigration process for overseas studies, such as obtaining visas and arranging housing.

Overseas Study Tour. We organize study tours for students to go overseas to learn foreign languages and other short-term curriculum, attend summer/winter school programs, or take part in other educational activities.

Our Teachers

We have a team of passionate, high quality teachers that are essential to our success. We have established well-developed methods for hiring, training and retaining qualified teachers, which include a rigorous recruiting process, periodic training in teaching methods and skills, school culture and philosophy, as well as a competitive base salary coupled with performance-based bonuses. We believe that our competitive and incentivizing remuneration package, career advancement opportunities, and systematic teacher training programs allow us to recruit, train and retain top quality teachers in the industry. As of May 31, 2020, we employed approximately 41,400 teachers, many of whom are from top universities in China or have studied overseas. Our teachers consist primarily of full-time teachers, and to a lesser extent, contract teachers. The number of contract teachers we employ may be subject to seasonal fluctuations as we tend to have more student enrollments in our test preparation courses during summer school holidays.

Recruitment

Leveraging our extensive experience in the private education sector, we have been able to effectively recruit and retain high quality teachers across our course offerings. We have a strong multi-step recruitment process for prospective candidates, including (i) application; (ii) screening; (iii) qualification tests; (iv) in-person interviews; and (v) demonstration lessons. During the recruitment process, we focus on the educational background, teaching experience, communication skills and performance in demonstration lessons of the prospective candidates. We target prospective candidates who are passionate about education and who can effectively connect with and motivate our students.

Training and supervision

We have established systematic teacher training programs to standardize and streamline the professional training of our teachers. Our training focuses on standardizing and enhancing teaching methods, teaching new skills, and fostering a school culture based on innovation, inspiration and community. The systematic training programs also ensure that teachers can adapt to our innovative and inspirational instruction approach and adhere to the New Oriental culture throughout their teaching. We offer training through our online teacher training platform and onsite training courses both in China and overseas. Throughout our operating history, we have continually fine-tuned our teacher-training programs to strike a balance between standardized teaching to promote efficiency and creativity to foster innovation and inspiration.

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Utilizing our data insights from our OMO system, we ensure consistency in teaching quality across our courses. We use our Quality Assurance Development (QAD) system to monitor and evaluate the performance of teachers. We identify the weaknesses of our teachers and provide tailored recommendations to them to address particular areas for improvement. We use our Visible Progress System (VPS) throughout our course delivery, providing a proprietary seven-step teaching method to standardize and maintain teaching quality across our educational services. Our proprietary seven-step teaching method includes pre-lesson quizzes to reinforce previous course materials, teaching tools that help to standardize students' notes and grasp new knowledge points, local teachers and learning tools that monitor students' in-class learning progress, Q&A machines that allow teachers to quickly identify students' learning progress in-class and their areas for improvement, in-class post-lesson quizzes to identify students' learning outcome, post-class interactive exercises and quizzes for students to review and better grasp new knowledge, and online bulletin boards that post students' exam and quiz results.

Career advancement and compensation

We are committed to the career advancement of our teachers. Our different business models give our teachers exposure to a broad range of educational scenarios to enhance their teaching experience for our teachers. We motivate our teachers by providing a dual-track career development framework, under which our top quality teachers may be promoted as teacher trainers or considered for management positions in our company. We support our teachers in building their personal brand image and expanding their personal influence through various measures, including helping teachers publish their teaching content and providing enhanced support to teachers on their teaching platforms.

Our compensation package is comprised of a fixed base salary and performance-based bonus fees. We believe that the compensation package we offer to our teachers is among the highest in the private education industry in China. We believe that our competitive compensation and career advancement contributes to the stability of our teaching staff.

Our Proprietary Teaching Content and Methodologies

We emphasize the quality of our teaching content which is crucial to the effectiveness of our teaching methodologies. We had approximately 4,000 personnel involved in our content development as of May 31, 2020. Our proprietary seven-step teaching method ensures that we standardize and maintain consistent teaching quality across our educational services. We develop our proprietary educational materials for our language training and test preparation courses, and leverage our big data algorithms and massive student data base to tailor course materials based on student learning behavior and performance. We continuously update our educational materials and expand our course offerings to ensure we stay abreast of the latest education trends. In addition, we distinguish ourselves from our competitors by publishing our in-house developed educational materials via partnerships with international education content providers, which enables us to increase market share in the competitive private education industry.

Marketing and Student Acquisition

We have a variety of marketing and student acquisition channels to attract new and retain existing students. We primarily attract prospective students through our brand name, the quality of our education services and products and our long operating history. In addition, our OMO system amplifies student acquisition effectiveness while reducing acquisition costs, enabling us to multiply student acquisition efforts. We integrate our offline presence with online traffic acquisition channels, media and efforts, such as providing online demonstration courses and social media promotions, to attract prospective students.

We employ the following marketing and student acquisition channels to attract new and retain existing students:

Referrals. With nearly 30 years of operating history, we have successfully established “New Oriental” as one of the most trusted brands with well-established brand recognition in the private education industry. We have focused on delivering high quality and differentiated educational services and products to across two generations of students in China. Our strong brand has allowed us to generate significant organic growth in student enrollments through word-of-mouth referrals. We expect our student enrollments to continue to grow from referrals through our extensive network of students and alumni.

Cross-Selling. As we have presence in different markets, we use our programs in one market as an opportunity to advertise our programs in other markets. With a variety of programs aimed at different age groups, our goal is to encompass students' lifelong learning journeys and cross-sell our course offerings to maximize students' lifetime value. Outside of our network, we have established cross-promotional relationships with a number of companies to promote our programs, services and products and awareness of our brand.

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Speeches and Seminars. Our management, most of whom are experienced teachers and were among our earliest teachers, and our teachers give speeches at colleges, universities, high schools and middle schools and to student groups, parent groups and educational organizations. They also participate in educational seminars and workshops. Their speeches include direct program promotion speeches during which they directly explain the merits and advantages of our programs or general English learning methods, as well as inspirational speeches designed to motivate students to reach their full potential and strive for success.

Summer Promotion Programs. We attract students through our summer promotion programs, which has been an effective and cost-efficient student acquisition channel. We provide precision marketing to target students through our summer promotion programs to attract more students to attend our courses in the fall semester.

Demo Courses and Advertisements. We provide online demo courses and social media promotions to attract target students, which has enabled us to maintain growth in student acquisition while reducing acquisition costs. We also advertise through our own websites and also on China's mainstream online media channels, news and vertical websites. We also have advertising arrangements with traditional media, such as outdoor displays, building lobby displays or elevator LCD displays.

Competition

The private education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We face competition in each major program we offer and each geographic market in which we operate. For example, we face competition from companies that focus on providing K-12 after-school tutoring services, test preparation and language training services in China.

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

- brand recognition;
- nationwide coverage and high level of scalability;
- high teaching quality with superior content;
- breadth and quality of program, service and product offerings
- overall student experience; and
- innovative technology capabilities.

We believe that our primary competitive advantages are our well-known "New Oriental" brand, our innovative and inspirational instruction methods and the breadth and quality of our programs, services and products. However, some of our existing and potential competitors may have more resources than we do. These competitors may be able to devote greater resources than we can to the development, promotion and sale of their programs, services and products and respond more quickly than we can to changes in student demands, testing materials, admissions standards, market needs or new technologies. In addition, we face competition from many different smaller sized organizations that focus on some of our targeted markets, which may be able to respond more promptly to changes in students' preferences in these markets.

We also face competition from online education service providers that offer online after-school tutoring services, test preparation and language training courses. These online education service providers use advanced technologies, such as online live broadcasting technologies, to offer their programs, services and products quickly and cost-effectively to a large number of students.

Seasonality

We have experienced, and expect to continue to experience, seasonal fluctuations in our operations, primarily due to seasonal changes in student enrollments. Historically, our test preparation courses tend to have the highest revenue in our first fiscal quarter, which runs from June 1 to August 31 of each year, primarily because a significant number of students enroll in our courses during the summer vacation to prepare for admissions and assessment tests. In addition, we have generally experienced higher revenue in our third fiscal quarter, which runs from December 1 to February 28 of each year, primarily because many students enroll in our test preparation courses during the winter school holidays. Our K-12 after-school tutoring courses tend to have higher revenue in the second half of our fiscal year, primarily because we gain more student enrollments as it gets closer to the exam season, such as the Zhongkao and Gaokao. We expect quarterly fluctuations in our revenues and results of operations to continue.

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 National Press and Publication Administration, or NPPA, the Ministry of Industry and Information Technology, or the MIIT, the SAMR, the Ministry of Civil Affairs and their respective authorized local counterparts.

Regulations on Private Education

Education Law of the PRC

In March 1995, the National People's Congress enacted the Education Law of the PRC, or the Education Law, which was later amended on August 27, 2009. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising kindergarten education, primary education, secondary education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. The Education Law stipulates that the State formulates plans for the development of education, establishes and operates schools and other educational institution. Furthermore, it provides that enterprises, other social organizations and individual citizens are encouraged to establish and operate schools and other types of educational institutions in accordance with PRC laws. The Education Law also provides that some basic conditions shall be met for the establishment of a school or any other educational institution, and the establishment, modification or termination of a school or any other educational institution shall, in accordance with the relevant PRC laws, go through the formalities of examination, verification, approval, registration or filing for record.

The 2009 amended Education Law prohibits any organization or individual from establishing or operating a school or any other educational institution for profit-making purposes. In December 2015, the Education Law was further amended with effect from June 2016. The 2015 amended Education Law abolishes the aforesaid provision. Thereafter, establishing or operating schools for profit-making purposes is allowed under the newly amended Education Law. Nevertheless, schools and other educational institutions sponsored wholly or partially by government funds or donated assets are still prohibited from being operated as for-profit.

The Law for Promoting Private Education and Its Implementation Rules

The principal regulations governing private education in China are the Law for Promoting Private Education, or the Private Education Law, and its implementation rules.

Prior to the amendment of the Private Education Law in 2016, private education is treated as a public welfare undertaking in all aspects. Nonetheless, investors of a private school may choose to require "reasonable returns" from the annual net balance of the school after deduction of costs, donations received, government subsidies, if any, the reserved development fund and other expenses as required by the regulations. Private schools were divided into three categories: private schools established with donated funds; private schools that require reasonable returns and private schools that do not require reasonable returns. Prior to the amendment of the Private Education Law in 2016, a duly approved private school will be granted a Permit for Operating a Private School and shall be registered with the Ministry of Civil Affairs or its local counterparts as a privately run non-enterprise institution.

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

On November 7, 2016, the Standing Committee of the National People's Congress promulgated the Amended Private Education Law, which became effective on September 1, 2017.

Under the Amended Private Education Law, the term "reasonable return" is no longer used. Instead, a new classification system for private schools on the basis of whether they are established and operated for profit-making purposes is adopted. Under the new classification system, sponsors of private school may choose to establish non-profit or for-profit private schools at their own discretion, save for private schools providing compulsory education are not allowed to be registered as for-profit. The key differences between for-profit private schools and non-profit private schools under 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 the relevant government authorities, whereas the collection of fees by non-profit private schools shall be regulated in accordance with rules promulgated by governments at provincial level;
- 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 land use rights in the form of allocation by the government as a preferential treatment, whereas for-profit private schools shall acquire the 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 county 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 calls for the ease of access to the operation of private schools and encourage social forces to enter into the education industry. The opinions also provide that each level of the government shall increase their support to the private schools in terms of financial investment, financial support, autonomy policies, preferential tax treatments, land policies, fee policies, autonomy operation, protection of the rights of teachers and students etc. Further, the opinions require each level of the government to improve local policies on government support to for-profit and non-profit private schools by such means as preferential tax treatments.

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On December 30, 2016, the MOE, Ministry of Civil Affairs, the SAMR, the Ministry of Human Resources and Social Welfare and the State Commission Office of Public Sectors Reform jointly issued the Implementation Rules on the Classification Registration of Private Schools to reflect the new classification system for private schools as set out in the Amended Private Education Law. Generally, if a private school established before promulgation of the Amended Private Education Law chooses to register as a non-profit school, it shall amend its articles of association, continue its operation and complete the new registration process. If such private school chooses to register as a for-profit school, it shall carry out financial liquidation, invite the relevant government authorities to clarify the ownership of such properties as lands, school building and the accumulated operating profits, pay relevant taxes and fees, apply for the new Permit for Operating Private School, re-register as a for-profit school and continue its operation.

On December 30, 2016, the MOE, the SAMR and the Ministry of Human Resources and Social Welfare jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools, which detail the supervision and administration of for-profit private schools regarding the establishment of schools, the organization structure, the education and teaching activities, finance and assets, the information publication, the change and termination of schools and the penalties for violation.

As of the date of this annual report, the majority of provincial governments in the PRC have promulgated their local rules which detail but for the most part repeat the provisions contained in the abovementioned state rules. However, some provinces, such as Beijing, Shanghai, Hubei and Hebei, may require the existing private schools to register either as for-profit or non-profit schools within a specific time period, while other provinces may not have a deadline.

Draft Amended Implementation Rules

In August 2018, the Ministry of Justice published on its official website the Draft Amended Implementation Rules to solicit comments from the public. The Draft Amended Implementation Rules provides that:

- private schools that provide pre-school education and school education for academic credentials, will be subject to approval by the government's education department at county level or above using standards applicable to public schools of the same level and category. Private training and education entities that provide after-school tutoring services for kindergarten kids or primary, middle and high school students will be subject to approval and strict supervision by the government's education department at or above county level;
- private schools providing online diploma-awarding education will need to hold both a private school operating permit and relevant internet operating permits. Private schools providing any online training and educational services, or technology companies providing any online platform or system supporting such online training and educations, will need to obtain relevant internet operation permits and complete record-filing with the government's education department or the government's human resources and social security department at provincial level. None of our schools provide online diploma-awarding education. The operating entity of our online education business holds a license for Internet information services, or ICP license; and
- any entities implementing group-based education are prohibited from gaining control over non-profit schools through mergers and acquisitions, franchise chains, and control agreements. Any agreements between a non-profit private school and its connected party that involve major interests or will be repeatedly performed in a long-term shall be reviewed and audited by relevant government authorities in the aspect of necessity, legitimacy and compliance and shall be arm's-length transactions.

Sponsorship of Private Schools

Under the Law for Promoting Private Education and the Implementation Rules for Promoting Private Education, entities and individuals that establish private schools are referred to as “sponsors.” As of May 31, 2020, New Oriental China was the sponsor of 104 schools.

Before September 1, 2017, the date the Amended Private Education Law became effective, the “sponsorship interest” that a sponsor holds in a private school is, for all practical purposes, substantially equivalent under PRC law and practice to the “equity interest” a shareholder holds in a company. Pursuant to the Implementation Rules for Promoting Private Education, 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.

As of September 1, 2017, we were not aware that PRC law provides that upon liquidation of a private school, the sponsor is legally restricted to receive only its invested capital and is not allowed to have other return. As of September 1, 2017, there was no national law that addresses this subject one way or the other. In the absence of a national law providing for the sponsor’s rights upon liquidation of a private school, provincial regulations and interpretations are ambiguous and inconsistent on this subject. There were local regulations or interpretations that specifically provide that sponsors are entitled to private schools’ residual assets pro rata based on their respective capital contribution. Nevertheless, there were also local regulations that are less clear in this regard.

Notwithstanding the legal uncertainties surrounding this issue, we believe that the potential risk that we will not receive all of the residual assets upon the liquidation of a school is immaterial. There were no capital contributions made by any PRC governmental authorities to our schools. Nor did any of our schools ever receive donations from any third parties, including PRC governmental authorities or any third party enterprises. Neither we nor our PRC 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.

Upon the effectiveness of the Amended Private Education Law in September 2017, sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law and other relevant laws and regulations, whereas sponsors of non-profit private schools are not entitled to the distribution of profits or proceed from the non-profit schools and all operation surplus of non-profit schools shall be used for the operation of the schools. The remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of other non-profit schools, whereas the remaining assets of for-profit private schools shall be distributed to the sponsors in accordance with the PRC Company Law.

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Regulations on After-School Tutoring

The State Council issued an Opinion on Supervising After-School Tutoring Institutions on August 22, 2018, or the State Council Circular 80, which provided various guidance on regulating after-school tutoring institutions that target primary and secondary school students. The State Council Circular 80 provides for the conditions for approval and registration of after-school tutoring institutions, and requires relevant governmental authorities to tighten regulations on after-school tutoring institutions. The State Council Circular 80 specifies operating requirements that after-school tutoring institutions must meet. Such requirements include, among other things, that after-school tutoring institutions (i) have a fixed training premise that conforms to specified safety criteria, with an average area per student of no less than three square meters during the applicable training period; (ii) comply with relevant fire safety, environmental protection, hygiene, food operation and other specified requirements; (iii) purchase personal safety insurance for students to reduce safety risks; and (iv) not hire teachers who are working concurrently in primary or secondary schools, and teachers tutoring in academic subjects such as English are required to have the corresponding teaching qualifications. After-school tutoring institutions are prohibited from carrying out training that goes beyond the school syllabus, training in advance of the corresponding school schedule and any training activities linked with student admission, nor shall they organize any level test, rank examination or competition on academic subjects for primary and secondary students. According to State Council Circular 80, extracurricular training institutions are also required to disclose and file relevant information, including their training content, schedule, targeted students and school timetable to the relevant education authority, and their training classes may not end later than 8:30 pm each day. After-school tutoring institutions can only collect in advance fees for courses spanning three months or shorter. Additionally, State Council Circular 80 requests that competent local authorities formulate relevant local standards for after-school tutoring institutions within their administrative area.

Regulations on Kindergarten

On September 11, 1989, the MOE issued the Kindergarten Management Regulations. The Kindergarten Management Regulations provide some basic principles for the establishment and management of kindergartens enrolling children aged three years or above and call for local regulations following such principles.

On November 7, 2018, the Central Committee of the Communist Party of China and State Council jointly promulgated Opinions of the Central Committee of the Communist Party of China and State Council on Deepening Reform in Preschool Education, or the Preschool Opinions. The Preschool Opinions laid out overall requirements for the reform and development of preschool education and specified measures to be taken in eight areas: planning and distribution of kindergartens, expansion of preschool education resources, long-term funding mechanisms, teaching workforce, supervision systems, regulation of private kindergartens, childcare and teaching quality, and administrative systems. The Preschool Opinions aim to increase the accessibility of preschool education to children and see the pre-school gross enrollment rate reach 85% by 2020. The Preschool Opinions propose to build a preschool education system centered on kindergartens with universal access (including public kindergartens and private kindergartens with universal access) and expect the coverage of kindergartens with universal access amount to 80% by 2020. The Preschool Opinions demand the regulation on the development of private kindergartens, including that (i) non-state capital is prohibited from controlling non-profit kindergartens through acquisitions and contractual arrangements, and (ii) private kindergartens are prohibited from listing as public companies by themselves or through packaging with other assets; and listed companies are not allowed to invest in for-profit kindergartens using funds from the capital market, or acquire for-profit kindergarten assets with stock or cash consideration. It is uncertain whether it would become illegal to use contractual arrangements to consolidate operation results of kindergartens under the new regulation regime, and the above rules may materially affect our expansion and operation of kindergartens in the future. On September 7, 2020, the MOE published on its website the Draft Preschool Education Law to solicit for public comments. The Draft Preschool Education Law repeats the provisions restricting kindergartens from pursuing profits and sets forth the legal liabilities for violation of such provisions.

Regulations on Compulsory Education

The Compulsory Education Law of the PRC was promulgated by the NPC on April 12, 1986, and last amended on December 29, 2018. According to the Compulsory Education Law of the PRC, a system of nine-year compulsory education, including six-year primary school and three-year middle school, was adopted.

Further, the MOE issued the Reform Guideline on the Curriculum System of Basic Education (Trial) on June 8, 2001, which became effective on the same day, pursuant to which schools providing basic education shall follow a “state-local-school” three-tier curriculum system. In other words, schools must follow the state curriculum standard for state courses, while the local educational authorities have the power to determine the curriculum standard for other courses, and schools may also develop curricula that are suitable for their specific needs.

According to the Interim Administrative Measures on the Compilation and Vetting of Primary and Secondary School Textbooks amended on November 10, 2015 by the MOE, textbooks must be vetted before being used in primary and secondary schools. According to the Interim Administrative Measures on the Selection of the Primary and Secondary School Textbooks promulgated on September 30, 2014, the MOE is responsible for publishing the catalog of textbooks for selection, and the provincial education authority is in charge of textbook selection within its relevant administrative jurisdiction. On December 16, 2019, the MOE issued the Administrative Measures on Primary and Secondary School Textbooks, which detail the regulations on the authoring, vetting, publication and schools’ selection of primary and secondary school textbooks.

On June 23, 2019, the Central Committee of the Communist Party of China and the State Council jointly promulgated the Opinions on Deepening the Education Reform and Comprehensively Improving the Quality of Compulsory Education, which emphasizes, among other issues, that schools providing compulsory education shall not admit students based on the results of any examination or competition, training scores, or any certificate, and shall not choose students based on interview or evaluation. The admission process of private schools providing compulsory education will be brought into a unified administration system and take place at the same time as that of public schools; and if applications exceed the enrollment plan, applicants will be admitted randomly by lottery. The above opinions also underline that it is prohibited for schools to replace the national curriculums with local or their specific curriculums, or to use uncertified textbooks, and schools providing compulsory education are not allowed to introduce overseas curriculums or use overseas textbooks.

Regulations Relating to Online Education

Regulations on Online After-School Tutoring

The MOE, jointly with certain other PRC government authorities, promulgated the Implementation Opinion on Regulating Online After-school Tutoring Activities, which became effective on July 12, 2019. The Implementation Opinion on Regulating Online After-school Tutoring Activities restates certain requirements that apply to all after-school tutoring institutions and further provides that, among others: (1) online after-school tutoring institutions shall publicly make available their teachers' name, photograph, teaching classes and teaching qualification number at prominent location on their home page, and shall publicly make available education background as well as working and education experience of foreign teachers; (2) information including licenses (including ICP), administration of funds, system of privacy and information safety, courses, course schedules, advertisement for student enrollment and teacher qualifications shall be filed with education administration authorities at provincial level before October 31, 2019 and education administration authorities at provincial level shall examine these materials and inspect the online tutoring institutions by December 2019, and education administration authorities at provincial level are authorized to issue detailed rules to implement the filing process; (3) the tutoring contents and data shall be kept for more than one year and the videos of live-streaming tutoring courses shall be kept for at least six months; (4) each class shall not last for more than 40 minutes and the break between two courses shall last for more than 10 minutes; (5) live-streaming tutoring activities for students in the compulsory education stage shall end before 9:00 p.m.; (6) online after-school tutoring institutions shall implement the internet safety procedures and establish privacy protection system; (7) fee policies, standards and refund policies shall be made public at prominent location on the online tutoring platform, and the advance payment shall not be used for investing purpose and the scale of advance payment shall fit the tutoring capability; and (8) when charging by training hours, tutoring institutions shall not collect pre-paid tutoring fees for more than 60 training hours; when charging by training cycles, tutoring institutions shall not collect pre-paid tutoring fees for a training period spanning more than three months.

Regulations on Education APPs

The Opinion on Guiding and Regulating the Healthy Development of Online Education Applications, issued by the MOE and seven other authorities on August 10, 2019, restates certain requirements that apply to online education application providers, as stated above, and further provides that: (1) online after-school tutoring institutions shall examine the teaching qualifications, education background and capability of their foreign teachers; (2) online education applications providers shall file information about themselves as well as their apps with education administration authorities at provincial level, and the MOE will promulgate detailed filing rules to guide such filing and make such filing results publicly available on official website; (3) online education applications providers whose apps mainly face juveniles shall limit the length of using time, specify age group of target users and strictly review the content of the apps, and the collection of personal information of juveniles shall be permitted by the custodian of such juveniles; (4) online education application providers shall build up data security systems covering the collection, storage, transfer, using and other respects of personal information, and shall set up a name verification system; (5) education authorities at provincial level shall set up negative lists of the online education apps. In November 2019, the MOE issued implementation rules with respect to the filings of online education apps. We have made the filings in accordance with the Implementation Opinion on Regulating Online After-school Tutoring Activities and the Opinion on Guiding and Regulating the Healthy Development of Online Education Applications.

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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 service is a typical value-added telecommunications business.

As a subsector of the value-added telecommunications business, Internet information services are also regulated by the Administrative Measures on Internet Information Services promulgated by the State Council, or the Internet Information Measures. The Internet Information Measures require that commercial Internet content providers, or ICP providers, obtain a license for Internet information services, or ICP license, from the appropriate telecommunications authorities in order to carry on any commercial Internet information services in the PRC. ICP providers shall display their ICP license number in a conspicuous location on their home page. In addition, the Internet Information Measures also provide that ICP providers that operate in sensitive and strategic sectors, including news, publishing, education, health care, medicine and medical devices, must obtain additional approvals from the relevant authorities in charge of those sectors as well. New Oriental China and Beijing Xuncheng have obtained the ICP licenses.

Regulations on Internet Culture Activities

The Ministry of Culture of the PRC promulgated the Internet Culture Administration Tentative Measures, or the Internet Culture Measures, on May 10, 2003, which were last amended on December 15, 2017. The Internet Culture Measures require ICP operators engaging in Internet culture activities to obtain an Internet culture business operations license from the Ministry of Culture in accordance with the Internet Culture Measures. The term “Internet culture activities” includes, among other things, acts of online dissemination of Internet cultural products, such as audio-visual products, games, performances of plays or programs, works of art and cartoons, and the production, reproduction, importation, sale (wholesale or retail), leasing and broadcasting of Internet cultural products.

On May 14, 2019, the General Office of the Ministry of Culture promulgated the Notice on Adjusting the Scope of Internet Culture Business Operating License and Further Standardizing the Approval Work, which provides that online music, online shows and plays, online performances, online works of art, and online cartoons, displays and competitions are the activities that fall in the scope of Internet Culture Business Operating License and further clarifies that educational live streaming activities are not online performances. Therefore, we are not required to obtain the Internet Culture Operation License for our online tutoring business.

Regulation on Production and Operation of Radio and Television Programs

The Administrative Measures on the Production and Operation of Radio and Television Programs, or the Radio and TV Programs Measures, promulgated by the State Administration of Press Publication Radio Film and Television, or the SAPPRFT (currently known as National Radio and Television Administration), regulates institutions that produce and distribute radio and television programs or for the production of radio and television programs like programs with a special topic, column programs, variety shows, animated cartoons, radio plays and television dramas and for activities like transactions and agency transactions of program copyrights. Pursuant to the Radio and TV Programs Measures, any entity that intends to produce or operate radio or television programs must first obtain the Permit for Production and Operation of Radio and TV Programs from the SAPPRFT or its local branches. However, due to the ambiguity of the definition of “Radio and Television Programs,” there is uncertainty as to whether our online courses fall within such definition. On May 4, 2018, our PRC legal counsel, Tian Yuan Law Firm, consulted with the Beijing Press, Publication, Radio and Television Bureau, which confirmed that online education is not subject to the Permit for Production and Operation of Radio and TV Programs. As advised by our PRC legal counsel, there has been no substantial change in the laws and regulations on the Permit for Production and Operation of Radio and TV Programs since the consultation in 2018.

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Regulation Related to Online Transmission of Audio-Visual Programs

To regulate the provision of audio-visual program services to the public via the internet, including through mobile networks, within the territory of the PRC, the SAPPRFT and the MIIT jointly promulgated the Administrative Provisions on Internet Audio-Visual Program Service, or the Audio-Visual Program Provisions, on December 20, 2007, which came into effect on January 31, 2008 and was last amended on August 28, 2015. Under the Audio-Visual Program Provisions, “online audio-visual program services” is defined as activities of producing, redacting and integrating audio-visual programs, providing them to the general public via internet, and providing service for other people to upload and transmit audio-visual programs, and providers of online audio-visual program services are required to obtain a License for Online Transmission of Audio-Visual Programs issued by the SAPPRFT, or complete certain registration procedures with the SAPPRFT. In general, providers of online audiovisual program services must be either state-owned or state-controlled entities, and the business to be carried out by such providers must satisfy the overall planning and guidance catalog for internet audiovisual program service determined by the SAPPRFT. However, due to the ambiguity of the definition of “Audio-visual Programs,” there is uncertainty as to whether our online courses fall within the definition of “Audio-visual Programs” and whether we are required to obtain the License for Online Transmission of Audio-Visual Programs. On January 20, 2020, in the Q&A section of its website, the Beijing Radio and Television Bureau confirmed that online education is not subject to the License for Online Transmission of Audio-Visual Programs.

Regulation Related to Internet Information Security and Privacy Protection

Pursuant to the PRC Cyber Security Law issued by the SCNPC on November 7, 2016, effective as of June 1, 2017, “personal information” refers to all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify individuals’ personal information including but not limited to: individuals’ names, dates of birth, ID numbers, biologically identified personal information, addresses and telephone numbers, etc. The PRC Cyber Security Law also provides that: (i) to collect and use personal information, network operators shall follow the principles of legitimacy, rightfulness and necessity, disclose rules of data collection and use, clearly express the purposes, means and scope of collecting and using the information, and obtain the consent of the persons whose data is gathered; (ii) network operators shall neither gather personal information unrelated to the services they provide, nor gather or use personal information in violation of the provisions of laws and administrative regulations or the scopes of consent given by the persons whose data is gathered; and shall dispose of personal information they have saved in accordance with the provisions of laws and administrative regulations and agreements reached with users; (iii) network operators shall not divulge, tamper with or damage the personal information they have collected, and shall not provide the personal information to others without the consent of the persons whose data is collected. However, if the information has been processed and cannot be recovered and thus it is impossible to match such information with specific persons, such circumstance is an exception.

Regulations on Publishing and Distribution of Publications

The State Council promulgated the Administrative Regulations on Publication, or the Publication Regulations, which was most recently amended on February 6, 2016. The Publication Regulations apply to publication activities, i.e., the publishing, printing, copying, importation or distribution of publications, including books, newspapers, periodicals, audio and video products and electronic publications, each of which requires approval from the relevant publication administrative authorities. According to the Publication Regulations, any entity engaging in the activities of publishing, printing, copying, importation or distribution of publications, shall obtain relevant permits of publishing, printing, copying, importation or distribution of publications. We do not engage in publishing business. Instead, Beijing New Oriental Dogwood Cultural Communications Co., Ltd., a subsidiary of New Oriental China, has been cooperating with qualified PRC publishing companies to publish our in-house developed teaching materials and other content.

According to Measures for the Administration of Internal Informative Publications, the editing and printing of internal informative publications is subject to the internal informative publications printing permit, though the permit of publishing is not required. Internal informative publications are defined as publications used for internal information communication and work guidance purpose and are not for sale. Measures for the Administration of Internal Informative Publications particularly clarify that textbooks and ancillary teaching materials should be published by publishing companies and are not internal informative publications. New Oriental China and its schools and subsidiaries engage in printing and providing teaching handouts and other materials to our students. Under the new regulation, it is uncertain whether printing and providing teaching handouts and other materials to our students would be deemed publishing activities. If the NPPA or its local branches or other competent authorities deem such activities as publishing, we may become subject to significant penalties, fines, legal sanctions or an order suspending our printing and providing of teaching handouts and other materials to our students.

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On May 31, 2016, the SAPPRFT and the Ministry of Commerce jointly promulgated the Provisions on the Administration of the Publication Market, which govern the wholesale, retail, lease and exhibition of publications. Pursuant to such provisions, institutions carrying on the wholesale of publications shall obtain approval and apply for the Permit for Operating Publications from the publication administration authorities at provincial level, while institutions carrying on the retail of publications shall get approval and apply for the Permit for Operating Publications from the publication administration authorities at county level.

The subsidiaries of New Oriental China engaged in the wholesale and retail distribution of books, periodicals, audio-visual products and electronic publications have obtained the relevant Permits for Operating Publications Business. During the term of the above-mentioned permits or licenses, NPPA or its local counterparts or other competent authorities may conduct annual or random examination or inspection from time to time to ascertain their compliance with applicable regulations and may require for change or renewal of such permits or licenses. If the subsidiaries of New Oriental China engaged in the wholesale and retail distribution of books, periodicals, audio-visual products and electronic publications are not able to pass the subsequent inspection or examination, they may not be able to maintain such permits or licenses necessary for their business.

Regulations on Tourism

Tourism Law of the PRC, which was promulgated by the Standing Committee of the NPC and most recently amended on October 26, 2018, provides that, among other things, to engage in the businesses of outbound tourism, a travel agency shall obtain corresponding business permit, and the specific conditions shall be provided for by the State Council and that when organizing an outbound touring group, or organizing or receiving an inbound touring group, a travel agency shall, in accordance with the relevant provisions, arrange for a tour leader or tour guide to accompany the touring group in the whole tour. Regulations on Travel Agencies promulgated by the State Council, revised on March 1, 2017, and the implementation rules of Regulations on Travel Agencies, provide that, among other things, travel agent shall mean any entity that engages in the business of attracting, organizing, and receiving tourists, providing tourism services for tourists and operating domestic, outbound or border tourism; the aforementioned business shall include but not limit to arranging for transport services, arranging for accommodation services, providing services for tour guides or team leaders, providing services of tourism consultation and tourism activities design. According to the Regulations on Travel Agencies and its implementation rules, any tourism agent that engages in the outbound tourism shall apply for a permit to engage in the outbound tourism from the administrative department of tourism under the State Council, the governments of provinces, autonomous regions, or municipalities.

The touring group for the overseas study tours participated in by primary and middle school students shall be organized by a qualified travel agent. Beijing New Oriental Walkite International Travel Co., Ltd, our subsidiary that engages in the businesses of outbound tourism, has obtained the aforementioned permit.

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

Regulations Relating to Private Education Fees

On August 17, 2020, MOE and other four departments jointly promulgated the Opinions on Further Strengthening and Regulating the Administration of Education Fees, or the Education Fees Opinions, which reiterate the previous provision that the fee level of for-profit private schools is open for market adjustment and can be determined by for-profit private schools at their own discretion, while the fee-collecting regulatory policies for non-profit private schools shall be formulated by the provincial governments. The Education Fees Opinions further clarify that private schools established prior to November 7, 2016 shall be regulated in the same way as non-profit private schools in terms of fee-collecting policies before they have completed the classification registration procedures. Besides the fee-collecting policies, the Education Fees Opinions also contain provisions regarding the management and use of education fees. The Education Fees Opinions require that all education fee revenue of a private school shall be deposited into a bank account filed with education authorities and be used mainly for education activities, the improvement of school conditions, faculty and staff's compensation and the appropriation of development fund. The Education Fees Opinions propose to explore a special audit system for school education fees, in particular for non-profit private schools. The Education Fees Opinions underline that sponsors of non-profit private schools shall not obtain proceeds from schools' operating profits, distribute the operating surplus or residual assets, or transfer operating profits through related-party transactions or related parties.

Regulations Relating to Foreign Investment

Foreign Investment Access Special Management Measures (Negative List) (2020 Version)

Investment activities in the PRC by foreign investors are governed by the Guiding Foreign Investment Direction, which was promulgated by the State Council in February 2002 and came into effect in April 2002, and the Special Administrative Measures for the Access of Foreign Investment (Negative List), or the 2020 Negative List, which was promulgated by the Ministry of Commerce and National Development and Reform Commission in June 2020 and came into effect in July 2020. The 2020 Negative List sets out the restrictive measures in a unified manner, such as the requirements on shareholding percentages and management, for the access of foreign investments, and the industries that are prohibited for foreign investment. The 2020 Negative List covers 12 industries, and any field not falling in the Negative List shall be administered under the principle of equal treatment to domestic and foreign investment. Under such 2020 Negative List, pre-school education, senior high school education in grades 10 to 12, publishing and value-added telecommunications services are in a restricted industry, meaning foreign educational organizations with relevant qualifications and experience and Chinese educational organizations are only allowed to operate pre-school education, senior high schools, publishing and value-added telecommunication services in cooperative ways by the form of a cooperative joint venture in the PRC. Foreign investment is banned from compulsory education, which means grades 1 to 9. After-school tutoring services and training services which do not grant certificates or diplomas and non-academic vocational training institutions are not listed on the 2020 Negative List.

The PRC Foreign Investment Law and Its Implementation Rules

On March 15, 2019, the National People's Congress promulgated the Foreign Investment Law, which came into effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The existing foreign-invested enterprises established prior to the implementation of the Foreign Investment Law may keep their corporate forms within five years. Pursuant to the Foreign Investment Law, "foreign investors" means natural person, enterprise, or other organization of a foreign country, "foreign-invested enterprises" (FIEs) means any enterprise established under PRC law that is wholly or partially invested by foreign investors and "foreign investment" means any foreign investor's direct or indirect investment in mainland China, including: (i) establishing FIEs in mainland China either individually or jointly with other investors; (ii) obtaining stock shares, stock equity, property shares, other similar interests in Chinese domestic enterprises; (iii) investing in new projects in mainland China either individually or jointly with other investors; and (iv) making investment through other means provided by laws, administrative regulations, or State Council provisions.

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The Foreign Investment Law stipulates that China implements the management system of pre-establishment national treatment plus a negative list to foreign investment and the government generally will not expropriate foreign investment, except under special circumstances, in which case it will provide fair and reasonable compensation to foreign investors. Foreign investors are barred from investing in prohibited industries on the negative list and must comply with the specified requirements when investing in restricted industries on that list. When a license is required to enter a certain industry, the foreign investor must apply for one, and the government must treat the application the same as one by a domestic enterprise, except where laws or regulations provide otherwise. In addition, foreign investors or FIEs are required to file information reports and foreign investment shall be subject to the national security review.

On December 26, 2019, the State Council promulgated the Implementing Rules of the Foreign Investment Law with effect from January 1, 2020 to provide implementing measures and detailed rules to ensure the effective implementation of the Foreign Investment Law.

Restrictions on Foreign Investment in Education

Pursuant to the 2020 Negative List, foreign investment in pre-school education and senior high school education in grades 10 to 12 is restricted, meaning that it shall only take the form of Sino-foreign cooperative schools and the domestic party shall play a dominant role. A dominant role requires that (i) the school's principal or chief executive must be a PRC national, and (ii) the school's governing body (including the board of directors, executive council or joint administration committee) must consist of a majority of representatives from the domestic party. Training business is not on the 2020 Negative List.

Sino-foreign cooperation in operating schools is specifically governed by (i) the Regulation on Operating Sino-foreign Cooperative Schools of the PRC, which was promulgated by the State Council in March 2003 and last amended in March 2019 respectively, and (ii) the Implementing Measures for the Regulations on Operating Sino-foreign Cooperative Schools of the PRC, which was issued by the MOE in June 2004. Pursuant to these rules, "Sino-foreign cooperative schools" are educational institutions established in China jointly by foreign parties and domestic parties targeting primarily students of PRC nationality. Both the foreign and domestic parties of a Sino-foreign cooperative school shall be educational institutions with the commensurate qualification for running schools and a good track record in providing high quality education. However, no implementing measures or specific guidance has been released as to what specific criteria must be met by the foreign party to demonstrate to the relevant authority that it meets the qualification requirements. The establishment of a Sino-foreign cooperative school shall be approved by the relevant education authority or human resources and social security authority.

On June 18, 2012, the MOE issued the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital into the Field of Education and Promoting the Healthy Development of Private Education, with the aim of encouraging private investment and foreign investment in the field of education. According to these opinions, the proportion of foreign capital contribution in a Sino-foreign cooperative school shall be less than 50%.

Restrictions on Foreign Investment in Publishing

In July 2005, the Ministry of Culture, the State Administration of Radio, Film and Television, the NPPA, the NDRC, and Ministry of Commerce jointly formulated the Several Opinions on Drawing Foreign Investment into the Cultural Sector, pursuant to which foreign investors are prohibited from engaging in business such as the publication of books, audio-visual products and electronic publications, and internet publishing. The 2020 Negative List also lists foreign investments in the publication of books, audio-visual products and electronic publications and in the provision of internet publishing services as a prohibited category.

The wholesale and retail of publications is not listed in the 2020 Negative List, indicating that the wholesale and retail of publications is a permitted area where foreign investment can enter. In particular, the Provisions on the Administration of the Publication Market clearly states that PRC allows foreign-invested enterprises to carry out the publication distribution (including wholesale and retail) business.

Restrictions on Foreign Investments in Value-added Telecommunications Services

The Regulations on Administration of Foreign-Invested Telecommunications Enterprises, or the FITE Regulations, which took effect on January 1, 2002 and last amended on February 6, 2016, are the key regulations for foreign direct investment in telecommunications companies in China. The FITE Regulations stipulate that the foreign investor of a telecommunications enterprise is prohibited from holding more than 50% of the equity interest in a foreign-invested enterprise that provides value-added telecommunications services. In addition, the main foreign investor who invests in a value-added telecommunications enterprise in China must demonstrate a positive track record and experience in providing such services. Moreover, foreign investors that meet these qualification requirements that intend to invest in or establish a value-added telecommunications enterprise operating the value-added telecommunications business must obtain approvals from the MIIT and the Ministry of Commerce, or their authorized local counterparts, which retain considerable discretion in granting approvals.

On July 13, 2006, the MIIT, issued the Circular on Strengthening the Administration of Foreign Investment in Value-added Telecommunications Services, or the MIIT Circular 2006, which requires that (i) foreign investors can only operate a telecommunications business in China through establishing a telecommunications enterprise with a valid telecommunications business operation license; (ii) domestic license holders are prohibited from leasing, transferring or selling telecommunications business operation licenses to foreign investors in any form, or providing any resource, sites or facilities to foreign investors to facilitate the unlicensed operation of telecommunications business in China; (iii) value-added telecommunications services providers or their shareholders must directly own the domain names and registered trademarks they use in their daily operations; (iv) each value-added telecommunications services provider must have the necessary facilities for its approved business operations and maintain such facilities in the geographic regions covered by its license; and (v) all value-added telecommunications services providers should improve network and information security, enact relevant information safety administration regulations and set up emergency plans to ensure network and information safety. The provincial communications administration bureaus, as local authorities in charge of regulating telecommunications services, may revoke the value-added telecommunications business operation licenses of those who fail to comply with the above requirements or fail to rectify such noncompliance within specified time limits. Due to the lack of any additional interpretation from the regulatory authorities, it remains unclear what impact MIIT Circular 2006 will have on us or the other PRC internet companies with similar corporate structures and contractual arrangements.

Regulations on Copyright and Trademark Protection

China has adopted legislation governing intellectual property rights, including copyrights, trademarks and domain names. China is a signatory to the main international conventions on intellectual property rights and 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 April 2019, protects the proprietary rights to registered trademarks. The Trademark Office under the SAMR handles trademark registrations and grants a term of ten years to registered trademarks and another ten years to trademarks as requested upon expiry of the prior term. Trademark license agreements must be filed with the Trademark Office for record. We have registered certain trademarks and logos, including “New Oriental” and “Pop Kids,” with the Trademark Office and are in the process of registering additional marks. In addition, if a registered trademark is recognized as a well-known trademark in a specific case, the proprietary right of the trademark holder may be extended beyond the registered sphere of products and services of the trademark in such case. In July 2014, the State Administration for Market Regulation released Provisions on the Recognition and Protection of Well-Known Trademarks. According to these provisions, well-known trademarks shall be recognized on a case-by-case basis, and be subject to the principle of passive protection. Our trademarks “,” “,” and “” have been recognized as “well-known trademarks” in civil action adjudicated and/or administrative determination in China.

Domain names. Pursuant to the Measures for the Administration of Internet Domain Names, which was promulgated by the Ministry of Industry and Information Technology of the PRC on August 24, 2017 with effect from November 1, 2017, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer and the principle of “first come, first serve” is followed for the domain name registration service. Domain name applicants shall provide true, accurate and complete identification of the domain name holder as requested by the domain name registration service provider.

Regulations on Foreign Currency Exchange

Pursuant to applicable PRC regulations on foreign currency exchange, RMB is freely convertible to current account items, such as trade-related receipts and payments, interest and dividend. Capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from SAFE or its local counterpart or prior registration with banks for conversion of RMB into a foreign currency.

Domestic companies or individuals can repatriate payments received from abroad in foreign currencies or deposit those payments abroad. Foreign-invested enterprises may retain foreign exchange in accounts with 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 local branch of Administration for Industries and Commerce and, unless set forth in the business scope or in PRC regulations, may not be used for equity investments within the PRC. In addition, SAFE has strengthened its oversight of the flow and use of the paid-in capital of a foreign-invested company settled in RMB converted from foreign currencies. The use of such RMB paid-in capital may not be changed without SAFE’s approval. Violations of Circular 142 will result in severe monetary or other penalties.

SAFE promulgated SAFE Circular 19, effective in June 2015 to abolish SAFE Circular 142. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third-party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB converted from the foreign currency-denominated capital of a foreign-invested company may not be used, directly or indirectly, for purposes beyond its business scope. Therefore, foreign-invested companies’ applications to make equity investment with their capital were often rejected on the ground of exceeding the business scope. SAFE promulgated SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the limitation on the use of RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company from prohibiting using such capital to issue RMB entrusted loans to prohibiting using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold to our PRC subsidiary, which may adversely affect our liquidity and our ability to fund and expand our business in China. On October 23, 2019, the SAFE promulgated SAFE Circular 28, which, among other things, allows all foreign-invested companies to use RMB converted from foreign currency-denominated capital for equity investments in China, for so long as there is a truthful equity investment, such equity investment does not violate applicable laws, and such equity investment complies with the negative list on foreign investment. The SAFE Circular 28 aims to lift the restriction on foreign-invested companies’ equity investment with capital on the ground of business scope implied by SAFE Circular 19.

Regulations on Foreign Exchange Registration of Offshore Investment by PRC Residents

Pursuant to the Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Round-Trip Investment Conducted by Domestic Residents through Special-Purpose Companies, 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.

Under SAFE Circular 37, failure to comply with the registration procedures set forth above may result in the penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

In June 2015, SAFE promulgated SAFE Circular 13, according to which, in order to simplify the procedures of performing the foreign exchange control policy of direct investment, the registration authorities under the SAFE foreign exchange control policies, including the registration of PRC residents under SAFE Circular 37 change from local SAFE branches to local banks authorized by SAFE and SAFE will strengthen the training and supervision for banks in performing the foreign exchange control policy of direct investment. Thus, according to SAFE Circular 13, the registration of PRC residents under SAFE Circular 37 shall be conducted with local banks authorized by SAFE.

Our beneficial owners immediately before our initial public offering who are PRC residents had registered with the local branch of SAFE prior to our initial public offering in 2006.

Regulations on Dividend Distribution

The principal regulations governing dividend distributions by wholly foreign-owned enterprises and Sino-foreign equity joint ventures include:

- Foreign Investment Law; and
- The Implementation Rules of Foreign Investment Law.

As these regulations were newly adopted and replaced the Sino-foreign Equity Joint Venture Enterprise Law, Wholly Foreign Owned Enterprise Law and all implementing rules thereunder, these regulations do not provide specific dividend distribution rules for foreign invested enterprises. However, they provide that after the conversion from a wholly foreign-owned enterprise or sino-foreign equity joint venture to a foreign invested enterprise under the Foreign Investment Law, distribution method of gains agreed in the joint venture agreements may continue to apply.

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.

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.

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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. According to the circular, new and detailed regulation of the application and approval process of Permit to Working in China is to be promulgated shortly. As of the date of this 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 the local branches of SAFE within three months after the overseas-listed company materially changes its stock incentive plan or make any new stock incentive plans.

According to SAFE Circular 7, from time to time, we need to make applications or update our registration with local branches of SAFE on behalf of our employees who are affected by our new share incentive plan or material changes in our current share incentive plan. However, we may not always be able to make applications or update our registration on behalf of our employees who hold our restricted shares or other types of share incentive awards in compliance with SAFE Circular 7, nor can we ensure you that such applications or update of registration will be successful. If we or the participants of our share incentive plans who are PRC citizens fail to comply with SAFE Circular 7, we and/or such participants of our share incentive plans may be subject to fines and legal sanctions, there may be additional restrictions on the ability of such participants to exercise their stock options or remit proceeds gained from sale of their stock into China, and we may be prevented from further granting share incentive awards under our share incentive plans to our employees who are PRC citizens.

Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the M&A Rule to more effectively regulate foreign investment in PRC domestic enterprises. The M&A Rule, as amended on June 22, 2009, provides that the Ministry of Commerce must be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise and any of the following situations exists: (1) the transaction involves an important industry in China, (2) the transaction may affect national “economic security,” or (3) the PRC domestic enterprise has a well-known trademark or historical Chinese trade name in China. Complying with the requirements of the M&A Rules to complete acquisitions of PRC companies by foreign investors could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit the ability to complete such transactions.

Regulations on Taxation

PRC Enterprise Income Tax. The National People's Congress, the Chinese legislature, passed the EIT Law, as last amended in 2018. The EIT Law applies a uniform 25% enterprise income tax rate to both foreign-invested enterprises and domestic enterprises. Preferential tax treatments are granted to industries and projects that are strongly supported and encouraged by the state, and enterprises otherwise classified as "high and new technology enterprises strongly supported by the state" upon re-examination will be entitled to a 15% enterprise income tax rate. The State Council promulgated the implementation rules of the EIT Law in 2007, as last amended in 2019, and the Ministry of Science and Technology, the Ministry of Finance and the SAT promulgated other supplemental rules in 2008 which were amended in 2016, respectively, regarding new criteria for the granting of "high and new technology enterprises" status. Upon the expiration of the initial term, the enterprise shall file a new application to obtain such status. Loss of any preferential tax treatments previously granted to us could have a material and adverse effect on our financial condition and results of operations.

According to the Circular On Several Policies for Further Encouraging the Development of Software Industry and Integrated Circuit Industry 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 SAT in April 2012 and effective from January 1, 2011, or Circular 27, an enterprise that qualifies as a "software enterprise" established after January 1, 2011, or a software enterprise, is exempt from enterprise income tax for two years beginning in the enterprise's first profitable year followed by a tax rate of 12.5% for the succeeding three years.

Enterprises which have been entitled to similar tax preferential treatments according to previous tax regulations are allowed to continue enjoying the above preferential treatments until the tax holiday granted to them expires, even though they were established before January 1, 2011.

Pursuant to the Notice on Issues Related to the Enterprise Income Tax Preferential Policies of Software and Integrated Circuit Industry on May 4, 2016, the software enterprises which enjoy preferential tax treatments shall provide filing documents with respect to preferential tax treatments to the relevant tax authority when filing annual enterprise income tax returns for the settlement of tax payments. In addition, pursuant to the Measures for Handling Matters Relating to Preferential Enterprise Income Tax Policies promulgated by the SAT on April 25, 2018, or Circular 23, an enterprise shall independently judge whether it satisfies the conditions prescribed under preferential taxation policies. The enterprises which satisfy such conditions shall calculate the tax reduction amount and enjoy the preferential tax treatments by filling out and submitting the enterprise income tax returns to the competent tax authority, and properly collect and retain relevant materials for future reference. For software enterprises, materials listed in the "follow-up management requirements," which are contained in the catalog attached to Circular 23, shall be prepared and submitted to the competent tax authority after annual financial settlement completed every year.

The EIT Law also provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate on their global income. Although the term "de facto management bodies" is defined as "management bodies which has substantial and overall management and control power on the operation, human resources, accounting and assets of the enterprise," the circumstances under which an enterprise's "de facto management body" would be considered to be located in China are currently unclear. A circular issued by the SAT in April 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a "resident enterprise" with its "de facto management bodies" located within China if the following requirements are satisfied: (1) the senior management and core management departments in charge of its daily operations function mainly in the PRC; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (3) its major assets, accounting books, company seals, and minutes and files of its board and shareholders' meetings are located or kept in the PRC; and (4) at least half of the enterprise's directors or senior management with voting rights reside in the PRC.

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In addition, the SAT issued a bulletin in August 2011, effective as of September 1, 2011, to provide more guidance on the implementation of the above circular. The bulletin clarified certain matters relating to resident status determination, post determination administration and competent tax authorities. It also specifies that when provided with a copy of a PRC tax resident determination certificate from a resident PRC-controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the PRC-sourced dividends, interest and royalties to the PRC-controlled offshore incorporated enterprise. Although both the circular and the bulletin only apply to offshore enterprises controlled by PRC enterprises and not those by PRC individuals, the determination criteria set forth in the circular and administration clarification made in the bulletin may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises and how the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals.

In addition, the SAT issued a bulletin in January 2014, to provide more guidance on the implementation of the above circular. This bulletin further provided that, among other things, an entity that is classified as a "resident enterprise" in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors registered. From the year in which the entity is determined as a "resident enterprise," any dividend, profit and other equity investment gain shall be taxed in accordance with the Article 26 of EIT law and the Article 17 and Article 83 of its implementation rules.

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

PRC Withholding Tax. According to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion, dividends paid to shareholders residing in Hong Kong are subject to a withholding tax of 5% provided that a Hong Kong resident enterprise owns over 25% of the PRC enterprise distributing the dividend and can be considered as a "beneficial owner" and entitled to treaty benefits under the DTA. In January 2018, the SAT promulgated Circular 9, to clarify the definition of beneficial owner under PRC tax treaties and tax arrangements. According to Circular 9, a beneficial owner refers to a party who holds ownership and control over incomes or the rights or assets from which the incomes are derived. In determining whether a resident of the other contracting party to a double taxation agreement, or a DTA, who is applying for enjoying preferential treatment under the DTA has the status as a beneficial owner, comprehensive analysis shall be conducted in light of the actual circumstances of the specific case and based on several factors, include among others, if (1) an applicant is under the obligation to pay 50% or more of the incomes received to any resident of any third country (region) within 12 months upon receipt of the incomes; and (2) if the business activities carried out by an applicant constitutes substantive business activities. Substantive business activities shall include substantive manufacturing, distribution, management and other activities. Whether an applicant's business activities are substantive shall be determined based on the functions actually performed by the applicant and the risks assumed thereby. The substantive investment and shareholding management activities carried out by the applicant may constitute substantive business activities. Where the applicant concurrently engages in investment and shareholding management activities that do not constitute substantive business activities and other business activities, if the other business activities are not significant enough, the applicant will not be considered as engaging in substantive business activities and hence more likely not a beneficial owner. In addition, if the incomes derived by any of the following applicants from China are dividends, the relevant applicant may be directly determined as having the status of a "beneficial owner":

- The government of the other contracting party to the relevant DTA;
- A company that is a resident of, and is listed on the market of, the other contracting party to the relevant DTA;
- A resident individual of the other contracting party to the relevant DTA; or

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- Where one or more parties referred to in Item (1) through Item (3) directly or indirectly hold 100% of the shares of the applicant, and the mid-tier in the case of indirect shareholding is a resident of China or a resident of the other contracting party to the relevant DTA.

Further, According to Circular 9, agents or designated payees are not beneficial owners. The fact that an applicant collects incomes via an agent or a designated payee does not affect the determination of whether the applicant has the status of a beneficial owner irrespective of whether an agent or a designated payee is a resident of the other contracting party to the relevant DTA.

According to such SAT Circular 9, if the business activities carried out by an applicant do not constitute substantive business activities, then such applicant is likely not to be regarded as a beneficial owner. Our wholly-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 DTA. If our Hong Kong subsidiaries are not regarded as the beneficial owners of any such dividends, it will not be entitled to the treaty benefits under the DTA. As a result, such dividends would be subject to regular withholding tax of 10% as provided by the PRC domestic law rather than the favorable rate of 5% applicable under the DTA.

In addition, in September 2018, SAT and other authorities jointly promulgated Notice on Expanding Application Scope of the Policy for Temporary Exemption of Withholding Income Tax on Direct Investment by Overseas Investors with Distributed Profits, or Circular 102, which became effective retroactively in January 2018. According to the Circular 102, where overseas investors use the profits obtained from resident enterprises within China to invest directly in the projects that are not prohibited from foreign investment, the deferred tax payment policy shall apply thereto and withholding income tax thereon shall be exempted temporarily. An overseas investor that is entitled to but has not actually enjoyed the policy of temporary exemption of withholding income tax under this Notice may apply to retroactively enjoy such policy within three years from the date of actual payment of relevant tax and for refund of the tax already paid.

According to the Circular 102, for the temporary exemption of overseas investors from payment of withholding income tax, the following conditions must be satisfied at the same time:

- (1) Direct investment made by overseas investors with the profits distributed thereto, includes their activities of equity investment with the distributed profits such as capital increase, new establishment and equity purchase and excludes the increase through purchase or distribution and purchase of the shares of listed companies (excluding the conforming strategic investment), specifically including:
(i) Increasing through purchase or distribution of the paid-in capital or capital reserve of resident enterprises within PRC; (ii) Investing in new establishment of resident enterprises within PRC; (iii) Purchasing the shares of resident enterprises within China from nonaffiliated parties; and (iv) Other methods prescribed by the Ministry of Finance and the SAT. The enterprises in which overseas investors invest through above investment activities shall be collectively referred to the invested enterprises.
- (2) The profits distributed to overseas investors fall under the dividends, bonus and other equity investment income formed from the actual distribution of the retained income already realized by resident enterprises within China to investors.
- (3) Where the profits used by overseas investors for direct investment are paid in cash, relevant amounts shall be transferred directly from the accounts of the profits distributing enterprises to the accounts of the invested enterprises or equity transferors and shall not be circulated among other domestic and overseas accounts before direct investment; where the profits used by overseas investors for direct investment are paid in kind, negotiable securities and other non-cash form, the ownership to relevant assets shall be transferred directly from the profits distributing enterprises to the invested enterprises or equity transferors and shall not be held by other enterprises and individuals on behalf thereof or temporarily.

In October 2018, SAT further promulgated Notice on Issues Relating to Expanding Application Scope of the Policy for Temporary Exemption of Withholding Income Tax on Direct Investment by Overseas Investors with Distributed Profits, which became effective retroactively in January 2018, to implement Circular 102 in detail.

PRC Value-Added Tax (VAT). The VAT reform program change the charge of sales tax from business tax to VAT for certain pilot industries, and was initially applied only to certain pilot industries in Shanghai and was extended to apply nationwide and to cover more additional industry sectors. On March 24, 2016, the Ministry of Finance and the State Administration promulgated the Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value-Added Tax, effective on May 1, 2016. On June 18, 2016, the Ministry of Finance and the SAT promulgated the Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value-Added Tax in the Policy of Reinsurance, Real Estate Leasehold and Non-formal Education, in which the general taxpayers providing non-academic educational services may apply a simple method for calculating the tax payable amount in accordance with the tax rate of 3%. Since January 2020, in accordance with the Announcement on Tax Policies to Support Prevention and Control of Pneumonia Caused by Novel Coronavirus Infection issued by Ministry of Finance and SAT, or the Cai Shui [2020] No.8, due to the COVID-19 virus, the VAT from providing daily life services will be exempted starting on January 1, 2020 until December 31, 2020.

Administrative Measures for Outbound Investment by Enterprises

Administrative Measures for Outbound Investment by Enterprises, or Circular 11, is promulgated by NDRC, on December 26, 2017 and became effective on March 1, 2018. According to Circular 11, to make Outbound Investment, the investor shall go through verification and approval, record-filing and other procedures applicable to outbound investment projects, report relevant information, and cooperate with supervision and inspection. Outbound investments for purpose of Circular 11 are the investment activities whereby an enterprise within PRC, directly or via overseas enterprises under its control, acquires ownership, controlling power, rights of operation and management and other relevant rights and interests overseas by making asset or equity investment, providing financing or guarantee, etc., and the aforementioned investment activities shall include but not limited to (1) acquiring land ownership, land-use rights and other rights and interests overseas; (2) acquiring concession rights to explore or exploit natural resources and other rights and interests overseas; (3) acquiring ownership, rights of operation and management and other rights and interests of infrastructure overseas; (4) acquiring ownership, rights of operation and management and other rights and interests of enterprises or assets overseas; (5) constructing new fixed assets overseas, or renovating or expanding existing fixed assets overseas; (6) establishing a new enterprise overseas or increasing investment in an existing enterprise overseas; (7) setting up a new overseas equity investment fund or purchasing units in an existing overseas equity investment fund; and (8) controlling enterprises or assets overseas by agreements or trusts. Individual resident of PRC who invest overseas via overseas enterprises or enterprises in Hong Kong, Macao and Taiwan regions which are under their control shall also be subject to this Circular 11.

According to Circular 11, sensitive outbound investment projects carried out by an enterprise within PRC directly or via the overseas enterprises under their control should obtain verification and prior approval from NDRC. For the purpose of the Circular 11, sensitive outbound investment projects include: (1) Projects involving sensitive countries and regions, including (i) countries and regions that have not established diplomatic relations with China; (ii) countries and regions where war or civil unrest has broken out; (iii) countries and regions in which investment by enterprises shall be restricted pursuant to the international treaties, agreements, etc. concluded or acceded to by China; and (iv) other sensitive countries and regions, and (2) Projects involving sensitive industries, including (i) research, production and maintenance of weaponry and equipment; (ii) development and utilization of cross-border water resources; (iii) news media; and (iv) other industries in which outbound investment needs to be restricted pursuant to China's laws and regulations as well as related control policies.

Further according to Circular 11, the non-sensitive projects carried out by the overseas enterprise directly controlled by PRC residents, including by means of making asset or equity investment by companies established for financing and investing, such as fund institutions, or providing financing or guarantee, shall complete record-filing with the competent authority prior to the implementation of such project. The non-sensitive projects carried out by the overseas enterprise indirectly controlled by PRC residents with the investment amount over USD300 million shall be reported to the NDRC of relevant information by submitting an information reporting form for large-amount non-sensitive projects.

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Where an outbound investment project falls within the scope of administration by verification and approval or record-filing but its investor within the PRC fails to obtain a valid verification and approval document or notice of record-filing, departments in charge of foreign exchange administration and customs, should, pursuant to the law, not process its application, and no financial enterprises should, pursuant to the law, provide relevant fund settlement and financing services.

C. Organizational Structure

Except our online education business that is operated by our majority-owned subsidiary, Koolearn, and its subsidiaries and consolidated variable interest entities, substantially all of our operations are conducted in China through 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 and Beijing Smart Wood. 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. Beijing Pioneer primarily engages in the educational software development business. Beijing Smart Wood primarily engages in the educational software development and consulting business.

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

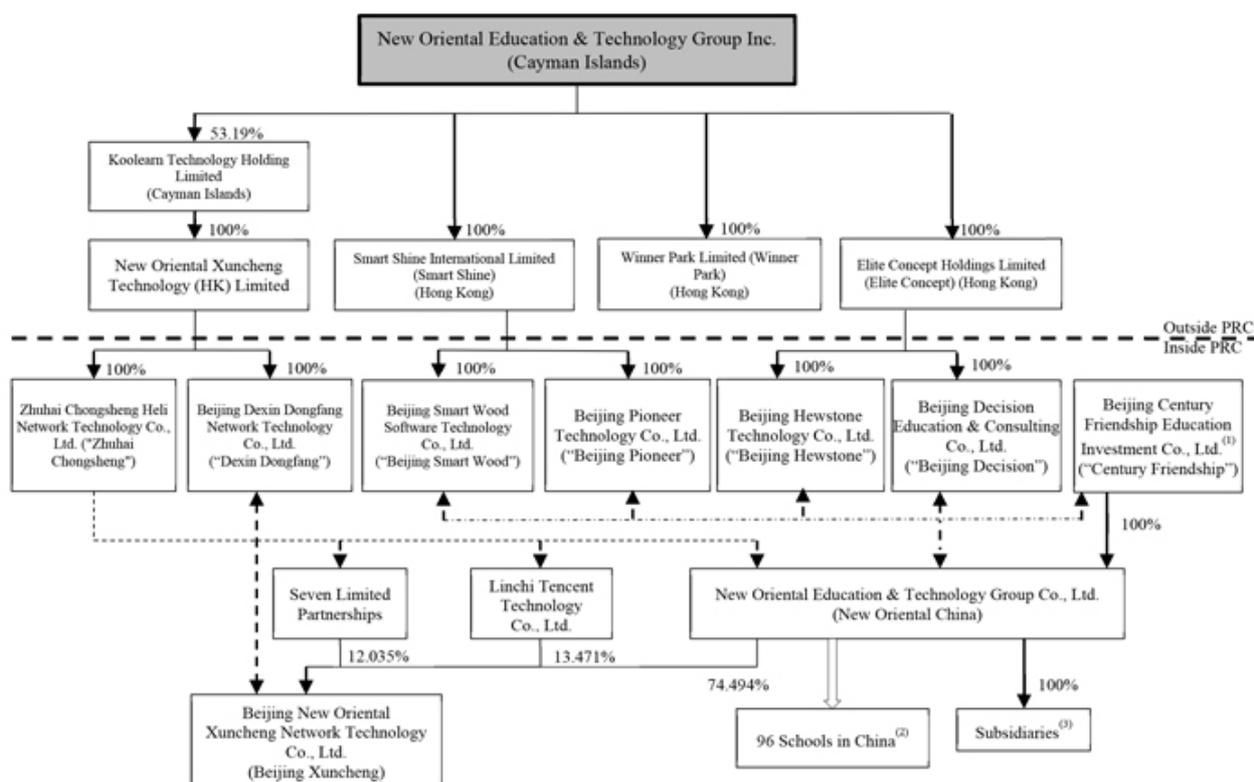


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Equity interest for companies.

Sponsorship interest for schools.

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.”

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 Beijing Xuncheng, Its Subsidiaries and Shareholders.”

- (1) Beijing Century Friendship Education Investment Co., Ltd, or Century Friendship, is 99% owned by Mr. Michael Minhong Yu, our founder and executive chairman, and 1% owned by Mr. Zihui Yang, our chief financial officer. In November 2019, Ms. Bamei Li, Mr. Yu’s mother, completed the transfer of the equity interest in Century Friendship held by her to Mr. Michael Minhong Yu and Mr. Zihui Yang, prior to such transfer, Century Friendship was 80% owned by Mr. Yu and 20% owned by Ms. Bamei Li.
- (2) Excluding certain schools that are separate legal entities but have been counted to our learning centers and certain schools that have been counted as the same school in the same city or region from the perspective of our internal management and our kindergartens.
- (3) Consisting of various PRC companies operating our educational content and other technology development and distribution business, and overseas studies consulting business in China.

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

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

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 the existing shareholder of New Oriental China to transfer all or part of the equity interest in New Oriental China to another PRC person or entity designated by us at any time in our discretion.

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.

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

In February 2017, as part of our efforts to streamline the corporate structure, we removed Shanghai Smart Words as a party to the contractual arrangements with New Oriental China and its schools and subsidiaries and shareholder. The rights and obligations of Shanghai Smart Words under these contractual arrangements have been assumed by Beijing Decision. The April 2012 equity pledge agreements have been amended to reflect the foregoing change while the other terms of these agreements remain unchanged. The equity pledges of Century Friendship under the amended agreements have been registered with the Haidian District, Beijing branch of the SAMR.

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.

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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.

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

Contractual Arrangements with Beijing Xuncheng, Its Subsidiaries and Shareholders

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

- have the power to direct the activities and most significantly affect the economic performance of Beijing Xuncheng and its subsidiary;
- receive substantially all of the economic benefits from Beijing Xuncheng and its subsidiary; and
- have an exclusive option to purchase all or part of the equity interest in Beijing Xuncheng, when and to the extent permitted by PRC law, or request any existing shareholder of Beijing Xuncheng to transfer all or part of the equity interest in Beijing Xuncheng to another PRC person or entity designated by us at any time in our discretion.

These contractual arrangements are summarized in the following paragraphs.

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

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

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

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

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

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Supplemental Agreement. Pursuant to the supplemental agreement dated October 10, 2019 entered into by and among Dexin Dongfang, Zhuhai Chongsheng Heli Network Technology Co., Ltd., or Zhuhai Chongsheng, a wholly-owned PRC subsidiary of Koolearn, Beijing Xuncheng and its subsidiaries and all of its shareholders, Zhuhai Chongsheng joined as a party to the contractual agreements between Dexin Dongfang, Beijing Xuncheng and its subsidiaries and shareholders (including the Exclusive Option Agreement, Exclusive Management Consultancy and Cooperation Agreement, Equity Pledge Agreement, Letters of Undertaking and Powers of Attorney). Pursuant to the supplemental agreement, Zhuhai Chongsheng assumed the same rights and share the same obligations as Dexin Dongfang under the contractual agreements.

Acceptance Letter. Beijing Dongfang Youbo Network Technology Co., Ltd., a subsidiary of Beijing Xuncheng, executed a letter of acceptance dated October 10, 2019 whereby it assumed the same rights and obligations as Beijing Xuncheng's subsidiary under the Exclusive Management Consultancy and Cooperation Agreement.

In the opinion of Tian Yuan Law Firm, our PRC legal counsel, as of the date of this annual report:

- (i) the corporate structure of New Oriental China and its schools and subsidiaries, and our wholly-owned subsidiaries in China, and (ii) the corporate structure of Beijing Xuncheng and its subsidiaries, Dexin Dongfang and Zhuhai Chongsheng are not in violation of existing PRC laws and regulations; and
- (i) the contractual arrangements among our wholly-owned subsidiaries in China, New Oriental China and its schools and subsidiaries and the shareholder of New Oriental China, and (ii) the contractual arrangements among Dexin Dongfang, Zhuhai Chongsheng, Beijing Xuncheng and its subsidiaries and shareholders 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. For example, if the relevant government authorities take a different view from ours on the Preschool Opinions and determine that our for-profit and/or non-profit kindergartens shall be excluded from our company, we may be requested to unwind the contractual arrangements for some or all of our kindergartens. We have been further advised by our PRC 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 some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations” and “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 49,000 square meters of office, training center and classroom space. In addition, we own approximately 210,000 square meters of schools in Yangzhou and an aggregate of approximately 47,000 square meters of space for our schools, learning centers and bookstores in Xi'an, Tianjin, Kunming, Wuhan, Guangzhou, Xiamen, Changsha, Hangzhou, Zhengzhou and Hefei. We lease all of our facilities for our schools, learning centers and bookstores in 78 other cities throughout China. For more information concerning our schools, learning centers and bookstores, see “Item 4. Information on the Company—B. Business Overview—Our Network.”

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 educational services in China. We expect that the demand for private educational services in China will be driven by (i) continued population growth and increasing disposable income per capita along with increasing level of urbanization, (ii) increasing education and employment opportunities requiring educational services beyond school curriculum, and (iii) advancement and wide application of innovative technology. However, any adverse changes in the economic conditions or regulatory environment in China may have a material adverse effect on the private education industry in China, which in turn may harm our business and results of operations and any heightened tension in international relations or global pandemic can have an adverse impact on our overseas related businesses, such as test preparation and consulting services.

Specific Factors Affecting Our Results of Operations

While our business is influenced by factors affecting the private education industry in China generally and by conditions in each of the geographic markets we serve, we believe our business is more directly affected by company-specific factors such as the number of student enrollments, the amount of course fees and our operating cost and expenses.

The number of student enrollments is in turn largely driven by the demand for our courses, our ability to maintain the consistency and quality of our teaching, our established brand and reputation and effectiveness of our marketing and brand promotion efforts, our ability to optimize our comprehensive online and offline integrated education ecosystem and our OMO (online-merge-offline) standardized digital classroom teaching system on a constant basis, the locations of our schools and learning centers, and our ability to respond to competitive pressure, as well as seasonal factors. The demand for our courses also depends on the continued use of admissions and assessment tests by educational institutions and governmental authorities both in China and abroad. We determine course fees primarily based on demand for our courses, the targeted market for our courses, the subject of the course, the geographic location of the school, cost of services, and the course fees charged by our competitors for the same or similar courses. We typically adjust course fees or school fees based on the market conditions of the city where the particular school is located, subject to the relevant local governmental authority’s advance approval, if required. The level of our operating cost and expenses will depend on our ability to carry out our systemized and centralized approach to improve operational efficiency through refinement of our centralized operation platform that supports all service offerings and continued investment in technologies.

Our future results of operations will depend significantly upon our ability to increase student enrollments both online and offline and further expand our school network throughout China, as well as offer a greater variety of courses, including smaller-size classes. Our planned expansion may result in substantial demands on our management, operational, technological, financial and other resources. To manage and support our growth, we must improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain additional qualified teachers and school management personnel as well as other administrative and sales and marketing personnel, particularly as we grow outside of our existing markets. We will continue to implement additional systems and measures and recruit qualified personnel in order to effectively manage and support our growth. If we cannot achieve these improvements, our financial condition and results of operations may be materially adversely affected.

Impact of COVID-19

The outbreak of COVID-19 pandemic around the globe has had and is expected to continue to have an impact on our operations and financial performance. Our student acquisition efforts were affected, and the enrollment for summer courses were delayed. While our K-12 after-school tutoring courses, (“K-12 AST courses”), experienced continued growth, our overseas related businesses, including test preparation and consulting services, have been negatively affected due to cancellation of overseas exams, suspension of overseas schools and restrictions on travels.

During the COVID-19 outbreak, our continued investment in OMO system enabled us to swiftly and effectively move our offline classes to online live broadcasting classes while maintaining the high quality of our services. Our students’ satisfaction and the effectiveness of our online courses through our OMO system was demonstrated by more students retained from winter to spring semester and from spring to summer semester as compared with the same period during last fiscal year. We incurred additional selling and marketing expenses as we ramped our marketing efforts to capture new market opportunities during COVID-19 pandemic, especially for new initiatives in K-12 AST on our pure online education platform, Koolearn.com. We believed that we are also well positioned to further consolidate the market in the aftermath of the pandemic.

The COVID-19 outbreak may continue affect our business operations and its financial condition and operating results for the fiscal year 2021, including but not limited to negative impact to our total revenues, fair value adjustments or impairment to our long term investments.

Selected Statements of Operations Items

Net Revenues. In the fiscal years ended May 31, 2018, 2019 and 2020, we generated total net revenues of US\$2,477.4 million, and US\$3,096.5 million and US\$3,578.7 million, respectively. Our revenues are net of PRC business taxes and related surcharges as well as refunds.

We currently derive revenues from the following sources:

- educational programs and services, which accounted for 88.5%, 90.0% and 90.3% of our total net revenues in the fiscal years ended May 31, 2018, 2019 and 2020, respectively; and
- books and other services, which accounted for 11.5%, 10.0% and 9.7% of our total net revenues in the fiscal years ended May 31, 2018, 2019 and 2020, respectively.

Educational Programs and Services. Our educational programs and services consist of K-12 AST, test preparation, and other courses (which we formerly referred to as language training and test preparation courses), pre-school education, primary and secondary school education and online education. Revenues from K-12 AST, test preparation, and other courses accounted for 82.7%, 84.2% and 85.0%, respectively, of our total net revenues in the fiscal years ended May 31, 2018, 2019 and 2020. We expect to continue to derive a substantial majority of our revenues from educational programs and services.

We recognize revenues from course fees collected for enrollment in our K-12 AST, test preparation, and other courses and online education proportionally as we deliver the instruction over the period of the course. Course fees are generally paid in advance by students and are initially recorded as deferred revenue. Students are entitled to a short-term trial period which commences on the date the course begins. Tuition refunds are provided to students if they decide within the trial period that they no longer want to take the course. After the trial period, if a student withdraws from a class, usually only those collected but unearned portion of the fee is available to be refunded. We recognize revenues from school fees collected for enrollment in our pre-school education and primary and secondary schools ratably over the corresponding academic year.

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Our courses generally have the highest revenue in our first fiscal quarter within the same fiscal year, which runs from June 1 to August 31 of each year, primarily because many students enroll in our courses during the summer vacation to prepare for admissions and assessment tests in subsequent school terms. In addition, we have generally experienced higher revenue in our third fiscal quarter, which runs from December 1 to February 28 of each year, primarily because many students enroll in our test preparation courses during the winter school holidays. Our K-12 AST courses tend to have higher revenue in the second half of our fiscal year, primarily because we gain more student enrollments as it gets closer to the exam season, such as the Zhongkao and Gaokao. We expect quarterly fluctuations in our revenues and results of operations to continue.

Books and Other Services. We distribute and sell books and other educational materials developed or licensed by us through our own distribution channels, which consist of our bookstores and websites, and also through third-party distributors. We normally provide books and other educational materials that are required for our courses and do not separately charge students for these items. We recognize revenues from sales of books and other educational materials when the products are sold to end customers. As we believe successful content development is important to the success of our business, we intend to continuously enhance the quality and breadth of our education content offerings and distribute more books and other educational materials through our own bookstores, as well as third-party distributors.

Other service revenues are primarily derived from consulting services to students regarding overseas studies and study tours.

Operating Cost and Expenses. Our operating cost and expenses consist of cost of revenues, selling and marketing expenses and general and administrative expenses. The following table sets forth the components of our operating cost and expenses as a percentage of total net revenues for the periods indicated.

(in thousands, except percentages)	For the Years Ended May 31,					
	2018		2019		2020	
	US\$	%	US\$	%	US\$	%
Net revenues	2,447,430	100.0	3,096,491	100.0	3,578,682	100.0
Operating cost and expenses:						
Cost of revenues	(1,065,740)	(43.5)	(1,376,269)	(44.5)	(1,588,899)	(44.4)
Selling and marketing	(324,249)	(13.2)	(384,287)	(12.4)	(445,259)	(12.4)
General and administrative	(794,482)	(32.5)	(1,034,028)	(33.4)	(1,145,521)	(32.0)
Total operating cost and expenses	<u>(2,184,471)</u>	<u>(89.2)</u>	<u>(2,794,584)</u>	<u>(90.3)</u>	<u>(3,179,679)</u>	<u>(88.9)</u>

Cost of Revenues. Cost of revenues for educational programs and services primarily consists of teaching fees and performance-linked bonuses paid to our teachers and rental payments for our schools and learning centers and, to a lesser degree, depreciation and amortization of property and equipment used in the provision of educational services, as well as costs of course materials.

Our teachers consist of both full-time teachers and contract teachers. Full-time teachers deliver instruction and may also be involved in management, administration and other functions at our schools. Full-time teachers' compensation and benefits primarily consist of teaching fees based on hourly rates, performance-linked bonuses based on student evaluations, as well as base salary, annual bonus and standard employee benefits in connection with their services other than teaching. Compensation of our contract teachers, who we mainly hire based on fluctuation in demand, is comprised primarily of teaching fees based on hourly rates and performance-linked bonuses based on student evaluations and other factors. We account for teaching fees and performance-linked bonuses paid to our teachers as cost of revenues as they are directly associated with the provision of educational services. Cost of books and other materials primarily consist of printing costs of books and other materials, and licenses fees, royalties and other fees paid to content licensors, publishing companies and third-party distributors. We anticipate that our total cost of revenues will continue to increase as we continue to open new schools and learning centers and hire additional teachers.

Selling and Marketing Expenses. Our selling and marketing expenses primarily consist of human resources expenses and other expenses relating to advertising, seminars, marketing and promotional trips and other community activities for brand promotion purpose. We expect that our selling and marketing expenses will continue to increase as we further expand into new geographic locations and enhance our brand recognition.

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General and Administrative Expenses. Our general and administrative expenses primarily consist of compensation and benefits of administrative staff, R&D expenses, costs of third-party professional services, rental and utilities payments relating to office and administrative functions, and depreciation and amortization of property and equipment used in our general and administrative activities. We expect that our general and administrative expenses will increase in the near term as we hire additional personnel and incur additional costs in connection with the expansion of our business.

Share-based Compensation Expenses

In January 2016, we adopted the 2016 Share Incentive Plan, under which we are authorized to issue up to 10,000,000 common shares pursuant to awards (including options) granted to our employees, directors and consultants. Since the adoption of our 2016 Share Incentive Plan, we have granted a total of 3,132,665 non-vested equity shares, among which, 1,029,304 and 181,715 were granted in the fiscal years ended May 31, 2019 and 2020, respectively, 77,224 and 143,744 shares were forfeited in the fiscal years ended May 31, 2019 and 2020, respectively.

On July 13, 2018, the board of directors of Koolearn approved an employee's share option plan, or the Koolearn Pre-IPO Share Option Scheme, under which Koolearn is authorized to issue up to 47,836,985 ordinary shares pursuant to awards granted to the directors, senior management, employees and contractors of Koolearn. Since the adoption of the Koolearn Pre-IPO Share Option Scheme, Koolearn has granted options to obtain an aggregate of 47,836,985 shares in Koolearn to 144 grantees under the Koolearn Pre-IPO Share Option Scheme. 2,360,000 shares were forfeited and 3,129,000 shares were cancelled in the fiscal year ended May 31, 2020.

On January 30, 2019, the board of directors of Koolearn approved an employee's share option plan, or the Koolearn Post-IPO Share Option Scheme, under which Koolearn is authorized to issue up to 91,395,910 ordinary shares pursuant to awards granted to, among others, directors, employees of Koolearn or its affiliate. Since the adoption of the Koolearn Post-IPO Share Option Scheme, Koolearn has granted options to obtain an aggregate of 40,000,000 shares in Koolearn to 552 grantees under the Koolearn Post-IPO Share Option Scheme. 1,801,000 shares were forfeited and nil shares were cancelled in the fiscal year ended May 31, 2020.

We account for share-based compensation expenses in accordance with an authoritative accounting pronouncement, which requires share-based compensation expense to be determined based on the fair value of our common shares as of their grant date. The following table sets forth the allocation of our share-based compensation expenses (including Koolearn's share-based compensation expenses), both in absolute amount and as a percentage of total share-based compensation expenses, among our employees based on the nature of work which they were assigned to perform.

(in thousands, except percentages)	For the Years Ended May 31,					
	2018		2019		2020	
	US\$	%	US\$	%	US\$	%
Allocation of Share-based Compensation Expense:						
Cost of revenues	—	—	134	0.2	2,224	3.6
Selling and marketing	—	—	1,205	1.7	4,227	6.8
General and administrative	57,443	100.0	69,997	98.1	55,606	89.6
Total	57,443	100.0	71,336	100.0	62,057	100.0

For options granted to our employees and directors, we record share-based compensation expenses based on the fair value of our common shares underlying options as of the date of option grant and amortize the expenses over the vesting periods of the options. For non-vested equity shares granted to employees and directors, we record share-based compensation expenses based on the quoted market price of our ADSs on the grant date and amortize the expenses over the vesting periods of the non-vested equity shares.

Taxation

Cayman Islands

We are 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.

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK\$2,000,000; and 16.5% on any part of assessable profits over HK\$2,000,000. Under the Hong Kong tax law, our Hong Kong subsidiaries are exempted from the Hong Kong income tax on its foreign-derived income. Hong Kong does not impose a withholding tax on dividends.

PRC

Other than our primary and secondary schools, our operating entities in China are subject to a value-added tax (“VAT”) at varying rates ranging from 3% to 16% (or 13% starting April 1, 2019) on their respective net revenues. Our operating entities that provide educational services are subject to a simple VAT collection method and apply for a 3% VAT rate since June 2016 according to the Notice of the Ministry of Finance and the State Administration of Taxation on Further Clarifying the Policies regarding Reinsurance, Immovable Property Leasing and Non-Academic Education in the Comprehensive Promotion of the Pilot Program of Replacing Business Tax with Value-Added Tax, or the Circular 68. VAT is reported as a deduction to revenue when incurred.

With regard to income tax, enterprises in China are generally subject to enterprise income tax at a rate of 25%. Enterprises that qualify as “high and new technology enterprises” are entitled to a favorable enterprise income tax rate of 15% rather than the 25% uniform statutory tax rate. Such qualification is reassessed by relevant governmental authorities every three years. Five of our wholly-owned subsidiaries in China, including Beijing Pioneer, Beijing Smart Wood and three other subsidiaries, are qualified as “high and new technology enterprises.” Beijing Hewstone, Beijing Decision and other two wholly owned subsidiaries in China, are in the process of renewing its qualification of “high and new technology enterprises.” Once the renewal are completed, these subsidiaries will be eligible for a favorable enterprise income tax rate of 15% starting January 1, 2020. Beijing New Oriental Dogwood Cultural Communications Co., Ltd., a subsidiary of our variable interest entity New Oriental China, and Kuxue Huisi Network Technology Co., Ltd, a subsidiary of our variable interest entity Beijing Xuncheng, are also qualified as “high and new technology enterprises.” Beijing Xuncheng, one of our variable interest entities, is also in the process of renewing its qualification of “high and new technology enterprises.” Once the renewal is completed, Beijing Xuncheng will be eligible for a favorable enterprise income tax rate of 15% starting January 1, 2020.

An enterprises that qualifies as a “software enterprise” is exempt from enterprise income tax for the two years beginning from such enterprise’s first profitable year and then is entitled to a reduced tax rate of 12.5% for the succeeding three years. Four of our wholly-owned subsidiaries in China, Beijing Jinghong, Beijing Zhiyuan Hangcheng and other two subsidiaries, are qualified as software enterprises. For those subsidiaries that are qualified as both “high and new technology enterprises” and “software enterprises,” they have elected to enjoy income tax exemption for the two years beginning from their first profitable year, then a reduced tax rate of 12.5% for the succeeding three years, and then a reduced tax rate of 15% so long as they continue to meet the qualification of “high and new technology enterprises.”

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In addition, under the current regulatory regime, whether our schools are entitled to any preferential income tax treatment remains unclear, and practice varies across different cities in China. Pursuant to the Implementation Rules for the Law for Promoting Private Education (2004), private schools that do not require reasonable returns enjoy the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools requiring reasonable returns shall be separately formulated by the relevant authorities under the State Council. To date, no regulations have been promulgated by the relevant authorities with regard to the preferential income tax treatment applicable to private schools requiring reasonable returns. As of May 31, 2020, 18 of our schools elected as schools not requiring reasonable returns, and 39 of our schools elected as schools requiring reasonable returns and the remaining schools were not classified or registered as companies. The Amended Private Education Law, which became effective on September 1, 2017, no longer uses the term “reasonable return.” Instead, under the Amended Private Education Law, sponsors of private schools may choose to establish non-profit or for-profit private schools at their own discretion, except that private schools in compulsory education area can only be registered as non-profit private schools. Pursuant to the Amended Private Education Law, non-profit private schools will be entitled to the same tax benefits as public schools while taxation policies for for-profit private schools are still unclear. Due to a lack of implementation rules, whether our schools can be entitled to any preferential income tax treatment remains unclear. In practice, tax treatments for private schools vary across different cities in China. For example, private schools in certain cities are subject to a 25% standard enterprise income tax, while in other cities, private schools are subject to a fixed amount of enterprise income tax each year as determined by the local tax authority in lieu of the 25% standard enterprise income tax or are not required to pay enterprise income tax at all. Among our schools in four major cities from which we derived a significant portion of our revenues in the fiscal year ended May 31, 2020, three schools are subject to the standard 25% enterprise income tax rate and one school was not required by the governing tax bureau to pay any EIT from its establishment through May 31, 2020.

Preferential tax treatments granted to our schools by local governmental authorities are subject to review and may be adjusted or revoked at any time. In addition, if the government regulations or authorities were to phase out preferential tax benefits currently granted to “high and new technology enterprises,” our wholly-owned subsidiaries and variable interest entities in China would be subject to the 25% uniform statutory tax rate. The discontinuation of any preferential tax treatments currently available to our schools, especially those schools in major cities, and to our wholly-owned subsidiaries and variable interest entities, will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations.

For additional information on PRC regulations on taxation, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Taxation.” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The discontinuation of any preferential tax treatments currently available to us could materially and adversely affect our results of operations.”

Recent Acquisitions

In October 2017, we acquired the entire equity interest in Hangzhou Shengshen Technology Co., Ltd, a K-12 education group located in Zhejiang, for a total consideration of US\$11.0 million.

In September 2018, we acquired the entire equity interest in Suzhou Hongyi Education Investment Co., Ltd, a kindergarten group located in Suzhou, for a total consideration of US\$42.6 million.

In April and November 2017, we invested an aggregate of US\$11.2 million in Asia Pacific Montessori Education Co., Ltd., or Asia Pacific, a kindergarten group located in Beijing and Hangzhou engaging in pre-school education, for 35% of its equity interest. In December 2018, we acquired the remaining 65% of equity interest of Asia Pacific, for a total consideration of US\$12.6 million. We currently hold the entire equity interest in Asia Pacific.

In January 2020, we acquired the entire equity interest in Nanjing Qicheng, a K-12 education group, located in Nanjing, for a total consideration of US\$1.2 million.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

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<i>(in thousands of US\$ except share and per share data)</i>	For the Years Ended May 31,		
	2018	2019	2020
Net revenues:			
Educational programs and services	2,165,152	2,785,254	3,230,378
Books and other services	282,278	311,237	348,304
Total net revenues	2,447,430	3,096,491	3,578,682
Operating cost and expenses: ⁽¹⁾			
Cost of revenues	(1,065,740)	(1,376,269)	(1,588,899)
Selling and marketing	(324,249)	(384,287)	(445,259)
General and administrative	(794,482)	(1,034,028)	(1,145,521)
Total operating cost and expenses	(2,184,471)	(2,794,584)	(3,179,679)
Gain on disposal of a subsidiary	—	3,627	—
Operating income	262,959	305,534	399,003
Other income, net:			
Interest income	84,838	97,530	116,117
Interest expense	—	(1,615)	(4,627)
Realized gain from long-term investments	7,366	26,379	407
Impairment loss from long-term investments	(980)	(5,919)	(31,750)
Loss from fair value change of long-term investments	—	(104,636)	(18,451)
Miscellaneous income, net	2,841	(1,424)	27,137
Provision for income (loss) taxes:			
Current	(72,785)	(103,031)	(142,992)
Deferred	13,377	17,317	8,630
Provision for income taxes	(59,408)	(85,714)	(134,362)
(Loss) gain from equity method investments	(379)	(2,289)	1,385
Net income	297,237	227,846	354,859
Less: Net income (loss) attributable to noncontrolling interests	1,107	(10,219)	(58,474)
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders	<u>296,130</u>	<u>238,065</u>	<u>413,333</u>
Net income per common share attributable to shareholders of New Oriental Education & Technology Group Inc. ⁽²⁾			
-Basic	<u>1.87</u>	<u>1.50</u>	<u>2.61</u>
-Diluted	<u>1.87</u>	<u>1.50</u>	<u>2.59</u>
Weighted average shares used in calculating basic net income per common share	158,168,794	158,293,890	158,429,576
Weighted average shares used in calculating diluted net income per common share	158,556,500	159,039,345	159,536,890

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

<i>(in thousands of US\$)</i>	For the Years Ended May 31,		
	2018	2019	2020
Cost of revenues	—	134	2,224
Selling and marketing	—	1,205	4,227
General and administrative	57,443	69,997	55,606
Total	<u>57,443</u>	<u>71,336</u>	<u>62,057</u>

(2) Each ADS represents one common share.

Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019

Net Revenues. Our total net revenues increased by 15.6% from US\$3,096.5 million for the fiscal year ended May 31, 2019 to US\$3,578.7 million for the fiscal year ended May 31, 2020. This increase was due to the increased revenues from both educational programs and services as well as from books and other services. The number of student enrollment is the main driver for our revenue. We track the number of student enrollment as a key indicator for our business growth and manage our course offerings and sales strategies accordingly.

- *Educational Programs and Services.* Net revenues from our educational programs and services increased by 16% from US\$2,785.3 million for the fiscal year ended May 31, 2019 to US\$3,230.4 million for the fiscal year ended May 31, 2020. This increase was primarily due to the growth in revenues from K-12 AST, test preparation, and other courses from US\$2,605.8 million in the fiscal year ended May 31, 2019 to US\$3,040.7 million in the fiscal year ended May 31, 2020. The increase in revenues from K-12 AST, test preparation, and other courses was mainly attributable to the increase in revenues from K-12 AST courses, partially offset by a decrease in revenues from overseas test preparation courses due to the COVID-19 pandemic. The increase in revenues from K-12 AST courses was mainly due to the increase in student enrollment in those courses. The number of student enrollments for our K-12 AST, test preparation, and other courses increased from approximately 8.4 million in the fiscal year ended May 31, 2019 to approximately 10.6 million in the fiscal year ended May 31, 2020, despite the dampened growth in the quarter ended May 31, 2020 due to the impact of COVID-19.
- *Books and Other Services.* Net revenues from sales of books and other educational materials and services increased by 11.9% from US\$311.2 million in the fiscal year ended May 31, 2019 to US\$348.3 million in the fiscal year ended May 31, 2020, primarily due to the increased revenue of US\$30.1 million from overseas consulting business in the fiscal year ended May 31, 2020.

Operating Cost and Expenses. Our total operating cost and expenses increased by 13.8% from US\$2,794.6 million in the fiscal year ended May 31, 2019 to US\$3,179.7 million in the fiscal year ended May 31, 2020. This increase resulted from increases in each of our cost of revenues, selling and marketing expenses and general and administrative expenses. Our operating cost and expenses continue to increase as we continue to open new schools and learning centers and hire additional teachers. We track the number of teachers, schools and learning centers as a key indicator for our operating cost and expenses and manage our expenditures and budget accordingly. Our total numbers of schools and learning centers were 104 and 1,361, respectively, as of May 31, 2020, compared to 95 and 1,159, respectively, as of May 31, 2019. We employed approximately 33,900 and 41,400 teachers as of May 31, 2019 and 2020, respectively.

- *Cost of Revenues.* Our cost of revenues increased by 15.4% from US\$1,376.3 million in the fiscal year ended May 31, 2019 to US\$1,588.9 million in the fiscal year ended May 31, 2020. This increase was in line with the increase in revenues and primarily due to an increase in teachers' compensation for more aggregated teaching hours and higher rental costs for the increased number of schools and learning centers in operation during the fiscal year ended May 31, 2020.
- *Selling and Marketing Expenses.* Our selling and marketing expenses increased by 15.9% from US\$384.3 million in the fiscal year ended May 31, 2019 to US\$445.3 million in the fiscal year ended May 31, 2020. This increase was primarily due to the increase in online marketing efforts and the addition of a number of customer service representatives and marketing staff with the aim of capturing the new market opportunity during COVID-19 pandemic, especially for new initiatives in our pure online education platform, Koolearn.com.

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- *General and Administrative Expenses.* Our general and administrative expenses increased by 10.8% from US\$1,034.0 million in the fiscal year ended May 31, 2019 to US\$1,145.5 million in the fiscal year ended May 31, 2020. This increase was primarily due to an increase of US\$41.3 million in human resources expenses, and an increase of US\$34.7 million in general operational expenses during the fiscal year ended May 31, 2020.

Other Income, Net. Our other income, net increased from US\$10.3 million in the fiscal year ended May 31, 2019 to US\$88.8 million in the fiscal year ended May 31, 2020, which was primarily due to higher loss from fair value change of long-term investments in the fiscal year ended May 31, 2019 and certain VAT exemption due to the COVID-19 in the fiscal year ended May 31, 2020.

Provision for Income Tax. Our income tax expense increased by 56.8% from US\$85.7 million in the fiscal year ended May 31, 2019 to US\$134.4 million in the fiscal year ended May 31, 2020. The increase was primarily due to an increase in valuation allowance for deferred tax assets in the fiscal year ended May 31, 2020.

Net Income. As a result of the foregoing, our net income for the fiscal year ended May 31, 2020 was US\$354.9 million, compared to US\$227.8 million for the fiscal year ended May 31, 2019.

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

Net Revenues. Our total net revenues increased by 26.5% from US\$2,447.4 million for the fiscal year ended May 31, 2018 to US\$3,096.5 million for the fiscal year ended May 31, 2019. This increase was due to the increased revenues from both educational programs and services as well as from books and other services.

- *Educational Programs and Services.* Net revenues from our educational programs and services increased by 28.6% from US\$2,165.2 million for the fiscal year ended May 31, 2018 to US\$2,785.3 million for the fiscal year ended May 31, 2019. This increase was primarily due to the growth in revenues from K-12 AST, test preparation, and other courses from US\$2,023.0 million in the fiscal year ended May 31, 2018 to US\$2,605.8 million in the fiscal year ended May 31, 2019. The increase in revenues from K-12 AST, test preparation, and other courses was mainly attributable to the increase in the number of student enrollments from approximately 6.3 million in the fiscal year ended May 31, 2018 to approximately 8.4 million in the fiscal year ended May 31, 2019, and in particular, the increased number of student enrollments in test preparation courses for middle and high school students and language training courses for children. The significant increase in the number of student enrollments is primarily due to the division of the spring semester into two parts since November 2018, in order to comply with the then latest regulatory requirements. Under this method, student enrollments in the spring semester are recorded separately for each part and the student enrollments for each part fall into separate quarters.
- *Books and Other Services.* Net revenues from sales of books and other educational materials and services increased by 10.3% from US\$282.3 million in the fiscal year ended May 31, 2018 to US\$311.2 million in the fiscal year ended May 31, 2019, primarily due to the increased revenue of US\$26.8 million from the overseas consulting business in the fiscal year ended May 31, 2019.

Operating Cost and Expenses. Our total operating cost and expenses increased by 27.9% from US\$2,184.5 million in the fiscal year ended May 31, 2018 to US\$2,794.6 million in the fiscal year ended May 31, 2019. This increase resulted from increases in our cost of revenues, selling and marketing expenses and general and administrative expenses. Our total numbers of schools and learning centers were 95 and 1,159, respectively, as of May 31, 2019, compared to 87 and 994, respectively, as of May 31, 2018.

- *Cost of Revenues.* Our cost of revenues increased by 29.1% from US\$1,065.7 million in the fiscal year ended May 31, 2018 to US\$1,376.3 million in the fiscal year ended May 31, 2019. This increase was primarily due to an increase in teaching fees and performance-linked bonuses paid to our teachers during the fiscal year ended May 31, 2019.
- *Selling and Marketing Expenses.* Our selling and marketing expenses increased by 18.5% from US\$324.2 million in the fiscal year ended May 31, 2018 to US\$384.3 million in the fiscal year ended May 31, 2019. This increase was primarily due to the addition of over 3,800 new sales and marketing personnel during the fiscal year ended May 31, 2019.

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- *General and Administrative Expenses.* Our general and administrative expenses increased by 30.1% from US\$794.5 million in the fiscal year ended May 31, 2018 to US\$1,034.0 million in the fiscal year ended May 31, 2019. This increase was primarily due to an increase of US\$601.1 million in human resources expenses and an increase of US\$138.2 million in general operational expenses during the fiscal year ended May 31, 2019.

Other Income, Net. Our other income, net decreased from US\$94.1 million in the fiscal year ended May 31, 2018 to US\$10.3 million in the fiscal year ended May 31, 2019, which was primarily due to higher loss from fair value change of long-term investments in the fiscal year ended May 31, 2019.

Provision for Income Tax. Our income tax expense increased by 44.3% from US\$59.4 million in the fiscal year ended May 31, 2018 to US\$85.7 million in the fiscal year ended May 31, 2019. The increase was primarily due to a higher income tax rate incurred in the fiscal year ended May 31, 2019.

Net Income. As a result of the foregoing, our net income for the fiscal year ended May 31, 2019 was US\$227.8 million, compared to US\$297.2 million for the fiscal year ended May 31, 2018.

Discussion of Segment Operations

For the years ended May 31, 2018, 2019 and 2020, we identified seven operating segments, including (i) K-12 AST, test preparation, and other courses (which we formerly referred to as language training and test preparation courses), (ii) primary and secondary school education, (iii) online education, (iv) content development and distribution, (v) pre-school education, (vi) overseas study consulting services, and (vii) study tours. In the year ended May 31, 2020, we identified K-12 AST, test preparation, and other courses as a reportable segment. Primary and secondary school education, online education, content development and distribution, pre-school education, overseas study consulting services and study tours operating segments were aggregated as others because individually they do not exceed the 10% quantitative threshold.

Net revenues from our K-12 AST, test preparation, and other courses accounted for 82.7%, 84.2% and 85.0%, respectively, of our total net revenues in the fiscal years ended May 31, 2018, 2019 and 2020. We recognize revenues from course fees collected for enrollment in our K-12 AST, test preparation, and other courses proportionally as we deliver the instruction over the period of the course.

Cost of revenues for our K-12 AST, test preparation, and other courses primarily consists of teaching fees and performance-linked bonuses paid to our teachers, rental payments for our schools and learning centers and, to a lesser degree, depreciation and amortization of property and equipment used in the provision of educational services.

Selling and marketing expenses for our K-12 AST, test preparation, and other courses primarily consist of marketing and promotion expenses and other costs related to our selling and marketing activities.

General and administrative expenses for our K-12 AST, test preparation, and other courses primarily consist of compensation and benefits of administrative staff of our K-12 AST, test preparation, and other courses segment, compensation and benefits, rental and utilities payments relating to office and administrative functions of our K-12 AST, test preparation, and other courses segment, depreciation and amortization of property and equipment used in the general and administrative activities of our K-12 AST, test preparation, and other courses segment and, to a lesser extent, costs to develop our curriculum.

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

<i>(in thousands of US\$)</i>	For the Years Ended May 31,		
	2018	2019	2020
Net revenues of the reportable segment:			
K-12 AST, test preparation, and other courses	2,022,978	2,605,829	3,040,741
Total net revenues of the reportable segment	<u>2,022,978</u>	<u>2,605,829</u>	<u>3,040,741</u>
Total net revenues of our company	<u>2,447,430</u>	<u>3,096,491</u>	<u>3,578,682</u>
Operating cost and expenses of the reportable segment:			
Cost of revenues:			
K-12 AST, test preparation, and other courses	(869,012)	(1,128,355)	(1,304,239)
Selling and marketing:			
K-12 AST, test preparation, and other courses	(193,851)	(212,170)	(218,739)
General and administrative:			
K-12 AST, test preparation, and other courses	(504,985)	(675,315)	(729,125)
Total operating cost and expenses of the reportable segment	<u>(1,567,848)</u>	<u>(2,015,840)</u>	<u>(2,252,103)</u>
Total operating cost and expenses of our company	<u>(2,184,471)</u>	<u>(2,794,584)</u>	<u>(3,179,679)</u>

Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019

Net Revenues of K-12 AST, test preparation, and other courses

Net revenues from our K-12 AST, test preparation, and other courses increased by 16.7% from US\$2,605.8 million for the fiscal year ended May 31, 2019 to US\$3,040.7 million for the fiscal year ended May 31, 2020, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019—Net Revenues—Educational Programs and Services.”

Operating Cost and Expenses of K-12 AST, test preparation, and other courses

- *Cost of Revenues.* Cost of revenues for our K-12 AST, test preparation, and other courses increased by 15.6% from US\$1,128.4 million for the fiscal year ended May 31, 2019 to US\$1,304.2 million for the fiscal year ended May 31, 2020, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019—Operating Costs and Expenses—Cost of Revenues.”
- *Selling and Marketing Expenses.* Selling and marketing expenses for our K-12 AST, test preparation, and other courses increased by 3.1% from US\$212.2 million for the fiscal year ended May 31, 2019 to US\$218.7 million for the fiscal year ended May 31, 2020, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019—Operating Costs and Expenses—Selling and Marketing Expenses.”
- *General and Administrative Expenses.* General and administrative expenses for our K-12 AST, test preparation, and other courses increased by 8.0% from US\$675.3 million for the fiscal year ended May 31, 2019 to US\$729.1 million for the fiscal year ended May 31, 2020, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2020 Compared to Fiscal Year Ended May 31, 2019—Operating Costs and Expenses—General and Administrative Expenses.”

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

Net Revenues of K-12 AST, test preparation, and other courses

Net revenues from our K-12 AST, test preparation, and other courses increased by 28.8% from US\$2,023.0 million for the fiscal year ended May 31, 2018 to US\$2,605.8 million for the fiscal year ended May 31, 2019, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2019 Compared to Fiscal Year Ended May 31, 2018—Net Revenues—Educational Programs and Services.”

Operating Cost and Expenses of K-12 AST, test preparation, and other courses

- *Cost of Revenues.* Cost of revenues for our K-12 AST, test preparation, and other courses increased by 29.8% from US\$869.0 million for the fiscal year ended May 31, 2018 to US\$1,128.4 million for the fiscal year ended May 31, 2019, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2019 Compared to Fiscal Year Ended May 31, 2018—Operating Costs and Expenses—Cost of Revenues.”
- *Selling and Marketing Expenses.* Selling and marketing expenses for our K-12 AST, test preparation, and other courses increased by 9.5% from US\$193.9 million for the fiscal year ended May 31, 2018 to US\$212.2 million for the fiscal year ended May 31, 2019, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2019 Compared to Fiscal Year Ended May 31, 2018—Operating Costs and Expenses—Selling and Marketing Expenses.”
- *General and Administrative Expenses.* General and administrative expenses for our K-12 AST, test preparation, and other courses increased by 33.7% from US\$505.0 million for the fiscal year ended May 31, 2018 to US\$675.3 million for the fiscal year ended May 31, 2019, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2019 Compared to Fiscal Year Ended May 31, 2018—Operating Costs and Expenses—General and Administrative Expenses.”

Inflation

According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index in China for May 2018, 2019 and 2020 were increases of 1.8%, 2.5% and 2.4%, respectively. Inflation has had some impact on our operations in recent years, in the form of higher salaries for our teachers and other staff and higher rental payments for certain of the properties we lease. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments in RMB, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China. We can provide no assurance that we will not be affected in the future should rates of inflation increase again in China.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the end of each fiscal period and the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. We believe the following accounting policy involves the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue recognition

On June 1, 2018, we adopted ASC Topic 606 Revenue from Contracts with Customers (“Topic 606”), applying the modified retrospective method to all contracts that were not completed as of June 1, 2018. Results for the years ended May 31, 2019 and 2020 are presented under Topic 606, while revenues for the year ended May 31, 2018 are not adjusted and continue to be reported under ASC Topic 605, Revenue Recognition.

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

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The primary sources of our company's revenues are as follows:

Educational programs and services

The educational programs and services consist of K-12 AST, test preparation, and other courses, pre-school education, primary and secondary school education and online education. Each contract of educational programs and services is accounted for as a single performance obligation which is satisfied proportionately over the service period. Tuition is generally collected in advance and is initially recorded as deferred revenue. Refunds are provided to students if they decide within the trial period that they no longer want to take the course. After the trial period, if a student withdraws from a class, usually only those unearned portion of the fee is available to be returned. Historically, we haven't had material refund. We recognize the revenue, net of VAT and surcharges from the educational programs and services proportionately when the services are delivered. US\$3,040.7 million of revenues of educational programs and services was derived from K12 AST, test preparation and other courses, and the remaining amount was derived from other segments.

Books and other services

Other service revenues are primarily derived from consulting services to students regarding overseas studies and study tours. Revenues are recognized when promised services are delivered to the customers in an amount of consideration to which we expect to be entitled to in exchange for those services. Each contract includes certain milestones and each of the milestones is considered a single performance obligation which is satisfied at the point of time when the related milestone is reached. Upon the adoption of Topic 606, we estimate the variable consideration to be earned and recognize revenues related to each milestone when the related milestone is achieved. Under the legacy revenue recognition standard, such revenues were deferred and recognized when student admission is reasonably assured. Our company sells books or other educational materials developed or licensed by our own book stores or websites or through third party distributors. Revenues from sales of books and other educational materials is recognized when control of the promised goods is transferred to the customers, in an amount that reflects the consideration we expects to be entitled to in exchange for the goods. All revenues of books and other services were derived from other segments. Our company provides books and other educational materials that are required for our courses and does not separately charge students for these items.

Our contract assets consist of accounts receivable and our contract liabilities mainly consist of prepayments from customers (deferred revenue).

Refund liability mainly related to the estimated refunds that are expected to be provided to students if they decide they no longer want to take the course. Refund liability estimates are based on historical refund ratio on a portfolio basis using the expected value method.

Consolidation of Variable Interest Entity

PRC laws and regulations currently require any foreign entity that invests in the education business in China to be an educational institution with relevant experience in providing educational services outside China. Our offshore holding companies are not educational institutions and do not provide educational services outside China. To comply with the PRC laws and regulations, we conduct substantially all of our business through New Oriental China and its subsidiaries and schools. We have, through our wholly-owned subsidiaries in the PRC, entered into contractual arrangements with New Oriental China, its schools and subsidiaries, and their shareholders such that New Oriental China and its schools and subsidiaries (collectively the "VIEs") are considered variable interest entities for which we are considered their primary beneficiary. We believe we have substantive kick-out rights per the terms of the option agreement, which gives us the power to control the shareholder of New Oriental China. More specifically, we believe that the terms of the exclusive option agreement are currently exercisable and legally enforceable under PRC laws and regulations. We also believe that the minimum amount of consideration permitted by the applicable PRC law to exercise the option does not represent a financial barrier or disincentive for us to exercise our rights under the exclusive option agreement. A simple majority vote of our board of directors is required to pass a resolution to exercise our rights under the exclusive option agreement, for which consent of the shareholder of New Oriental China is not required. Therefore, we believe this gives us the power to direct the activities that most significantly impact the VIEs' economic performance. We believe that our ability to exercise effective control, together with the service agreements and the equity pledge agreements, give us the rights to receive substantially all of the economic benefits from the VIEs in consideration for the services provided by our wholly-owned subsidiaries in China. Accordingly, as the primary beneficiary of the VIEs and in accordance with U.S. GAAP, we consolidate their financial results and assets and liabilities in our consolidated financial statements.

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On May 10, 2018, Dexin Dongfang, a wholly-owned PRC subsidiary of Koolearn, our controlled subsidiary, entered into contractual arrangements with Beijing Xuncheng, its subsidiaries, and its shareholders such that Beijing Xuncheng and its subsidiaries (collectively the “Xuncheng VIEs”) are considered variable interest entities for which Koolearn is considered as their primary beneficiary. We believe Koolearn has substantive kick-out rights per the terms of the exclusive option agreement, which gives Koolearn the power to control the shareholders of Beijing Xuncheng. More specifically, we believe that the terms of the exclusive option agreement are currently exercisable and legally enforceable under PRC laws and regulations. We also believe that the minimum amount of consideration permitted by the applicable PRC law to exercise the option does not represent a financial barrier or disincentive for Koolearn to exercise its rights under the exclusive option agreement. A simple majority vote of Koolearn’s board of directors is required to pass a resolution to exercise its rights under the exclusive option agreement, for which consent of the shareholders of Beijing Xuncheng is not required. Therefore, we believe this gives Koolearn the power to direct the activities that most significantly impact the Xuncheng VIEs’ economic performance. We believe that Koolearn’s ability to exercise effective control, together with the exclusive management consultancy and business cooperation agreement and the equity pledge agreement, give Koolearn the rights to receive substantially all of the economic benefits from the Xuncheng VIEs in consideration for the services provided by Koolearn’s wholly-owned subsidiaries in China. Accordingly, as the primary beneficiary of the Xuncheng VIEs and in accordance with U.S. GAAP, we consolidate their financial results and assets and liabilities in our consolidated financial statements.

On October 10, 2019, Dexin Dongfang and Zhuhai Chongsheng Heli Network Technology Co., Ltd. or Zhuhai Chongsheng, a wholly-owned PRC subsidiary of Koolearn entered into a supplemental agreement with Beijing Xuncheng and its subsidiaries and all of its shareholders. Pursuant to the supplemental agreement, Zhuhai Chongsheng joined as a party to the contractual agreements between Dexin Dongfang, Beijing Xuncheng and its subsidiaries and shareholders, and assumed the same rights and share the same obligations as Dexin Dongfang under the contractual agreements.

On October 10, 2019, Beijing Dongfang Youbo Network Technology Co., Ltd., a subsidiary of Beijing Xuncheng, executed a letter of acceptance whereby it assumed the same rights and obligations as Beijing Xuncheng’s subsidiary under the exclusive management consultancy and business cooperation agreement.

As advised by Tian Yuan Law Firm, our PRC legal counsel, our corporate structure in China does not violate any 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 some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations” and “Item 3. Risk factors—D. 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,” “Item 3. Risk factors—D. Risks Related to Our Corporate Structure —Our ability to enforce the equity pledge agreements between us and the shareholders of our variable interest entities may be subject to limitations based on PRC laws and regulations” and “Item 3. Risk factors— D. 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.”

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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 Beijing Xuncheng, Its Subsidiaries and Shareholders” for a summary of these contractual arrangements. In the fiscal years ended May 31, 2018, 2019, and 2020, the VIEs contributed in aggregate 98.8%, 98.7% and 96.5%, respectively, of our total net revenues. As of the years ended May 31, 2018, 2019 and 2020, the VIEs accounted for an aggregate of 71.2%, 67.5% and 74.0%, respectively, of the consolidated total assets, and 95.8%, 90.5% and 93.9%, respectively, of the consolidated total liabilities. The assets not associated with the VIEs primarily consist of cash, investments and commercial property.

Equity securities

On June 1, 2018, we adopted ASU 2016-01 Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities and 2018-03 Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. We adopted this ASU using a modified retrospective method and reclassified unrealized losses of US\$97.9 million, net of tax on investment securities which were previously accounted for as available-for-sales investments, from accumulated other comprehensive losses to the opening balance of retained earnings. The adjustment related to the fair value measurement of equity securities which were previously classified as available for sales investments.

Equity securities with readily determinable fair values

Prior to the adoption of ASU 2016-01, equity securities that have readily determinable fair values and were not accounted for using the equity method or those that result in consolidation of the investee were classified as available-for-sale investments, and were carried at the fair value with unrealized gains and losses recorded in accumulated other comprehensive income (loss) as a component of shareholders’ equity. Upon the adoption of ASU 2016-01, we carry these equity securities at fair value with unrealized gains and losses recorded in the consolidated income statements.

Equity securities without readily determinable fair values

Starting on June 1, 2018, we elected a practicability exception to fair value measurement for the equity securities without readily determinable fair values, under which these investments are measured at cost, less impairment, plus or minus observable price changes of an identical or similar investment of the same issuer with fair value change recorded in the consolidated income statements.

We review our equity securities without readily determinable fair value for impairment at each reporting period. If a qualitative assessment indicates that the investment is impaired, we estimate the investment’s fair value in accordance with the principles of ASC Topic 820, Fair Value Measurements and Disclosures (“ASC 820”). If the fair value is less than the investment’s carrying value, we recognize an impairment loss equal to the difference between the carrying value and the fair value in the consolidated statements of operations.

Equity Method Investments

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

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Under the equity method, we initially record investments at cost and subsequently recognize proportionate share of each equity investee's net income or loss after the date of investment into earnings and accordingly adjust the carrying amount of the investment.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary. We estimated the fair value of the investee company based on comparable quoted price for similar investment in active market, if applicable, or discounted cash flow approach which requires significant judgments, including the estimation of future cash flows, which is dependent on internal forecasts, the estimation of long term growth rate of a company's business, the estimation of the useful life over which cash flows will occur, and the determination of the weighted average cost of capital. We did not record any impairment losses on our equity method investment during the years ended May 31, 2018, 2019 and 2020, respectively.

Available-for-sale Investments

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

Available-for-sale investments are carried at their fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income. Realized gains or losses, and provision for decline in value judged to be other than temporary, if any, are recognized in the consolidated statements of operations.

We review our available-for-sale investments for other-than-temporary impairment based on the specific identification method. We consider available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds the investment's fair value, we consider, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the available-for-sale investment is less than the cost, our intent and ability to hold the investment, and the financial condition and near term prospects of the investees. We recorded US\$980 thousand, US\$5.9 million and US\$31.8 million impairment losses from long-term investments during the years ended May 31, 2018, 2019 and 2020, respectively.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. Significant judgment is required in determining our provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in the application of accounting principles and complex tax laws.

We account for income taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities, net of operating loss carry forwards and credits, by applying enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of operations in the period of change. Deferred tax assets are reduced by a valuation allowance when it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

We account for uncertain tax positions by reporting a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Tax benefits are recognized from uncertain tax positions when we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expenses.

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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."

Operating leases

Before June 1, 2019, we adopted ASC Topic 840 ("ASC 840"), *Leases*, and each lease is classified at the inception date as either a capital lease or an operating lease.

On June 1, 2019, we adopted the New Leasing Standard ("ASC 842"), using the modified retrospective transition method resulting in the recording of operating lease right-of-use (ROU) assets of US\$1,254.6 million and operating lease liabilities of US\$1,238.1 million upon adoption. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. The adoption of the new guidance did not have a material effect on the consolidated statements of operations. As of May 31, 2020, we recognized operating lease ROU assets of US\$1,425.5 million and total lease liabilities US\$1,462.2 million, including current portion at the amount of US\$384.2 million.

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

As the rate implicit in the lease is not readily determinable, we estimate our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated in a portfolio approach to approximate the interest rate on a collateralized basis with similar terms and payments in a similar economic environment. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expenses are recorded on a straight-line basis over the lease term.

Recently Issued Accounting Pronouncements

For a summary of recently issued accounting pronouncements, see Note 2 to our consolidated financial statements.

B. Liquidity and Capital Resources

Our principal source of liquidity has been cash generated from operating activities. As of May 31, 2020, we had US\$915.1 million and US\$4.4 million in cash and cash equivalents and restricted cash, respectively. Our cash and cash equivalents consist of cash on hand and liquid investments that are unrestricted as to withdrawal or use, have maturities of three months or less and are placed with banks and other financial institutions. Although we consolidate the results of New Oriental China and its schools and subsidiaries, we do not have direct access to the cash and cash equivalents or future earnings of New Oriental China. However, a portion of the cash balances of New Oriental China and its schools and subsidiaries are paid to our wholly-owned subsidiaries in China pursuant to contractual arrangements for the services our subsidiaries provide to New Oriental China and its schools and subsidiaries.

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We expect to require cash to fund our ongoing business needs, particularly the rent and other cost and expenses relating to opening new schools and learning centers. We opened 321 new learning centers and closed 110 existing centers in fiscal year 2020. We plan to continue to add schools and learning centers in the future with a focus on opening new learning centers in fast growing, high profit margin cities. We expect to incur capital expenditures ranging from approximately RMB1.0 million (US\$0.1 million) to RMB4.0 million (US\$0.6 million) per new school depending primarily on the size and geographic location of the school. Other cash needs include acquisitions of businesses and properties that complement our operations when suitable opportunities arise. We have not encountered any difficulties in meeting our cash obligations to date. We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the foreseeable future.

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

<i>(in thousands of US\$)</i>	For the Years Ended May 31,		
	2018	2019	2020
Net cash provided by operating activities ⁽¹⁾	781,127	805,648	804,455
Net cash used in investing activities	(407,143)	(574,712)	(1,256,370)
Net cash (used in) provided by financing activities ⁽¹⁾	(74,881)	266,649	(17,862)
Effect of foreign exchange rate changes	42,992	(66,123)	(29,026)
Net change in cash and cash equivalents	342,095	431,462	(498,803)
Cash and cash equivalents and restricted cash at beginning of the period	644,670	986,765	1,418,227
Cash and cash equivalents and restricted cash at end of the period	986,765	1,418,227	919,424

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

Operating Activities

Net cash provided by operating activities amounted to US\$804.5 million in the fiscal year ended May 31, 2020. Our net cash provided by operating activities in the fiscal year ended May 31, 2020 reflected net income of US\$354.9 million, as adjusted by the reconciliation of certain non-cash items, including US\$146.3 million in depreciation and US\$62.1 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in the deferred revenue in the amount of US\$61.9 million due to the increased amount of course fees received during the period, and an increase in the accrued expenses and other current liabilities account of US\$63.7 million, primarily due to an increase in accrued employee salary expenses and welfare benefits.

Net cash provided by operating activities amounted to US\$805.6 million in the fiscal year ended May 31, 2019. Our net cash provided by operating activities in the fiscal year ended May 31, 2019 reflected net income of US\$227.8 million, as adjusted by the reconciliation of certain non-cash items, including US\$110.0 million in depreciation and US\$71.3 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in the deferred revenues in the amount of US\$336.9 million due to the increased amount of course fees received during the period.

Net cash provided by operating activities amounted to US\$781.1 million in the fiscal year ended May 31, 2018. Our net cash provided by operating activities in the fiscal year ended May 31, 2018 reflected net income of US\$297.2 million, as adjusted by the reconciliation of certain non-cash items, including US\$77.1 million in depreciation and US\$57.4 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in the deferred revenues in the amount of US\$334.4 million due to the increased amount of course fees received during the period, and an increase in the accrued expenses and other current liabilities account of US\$68.2 million, primarily due to an increase in accrued employee salary expenses and welfare benefits.

Investing Activities

We lease all of our facilities except for part of the premises for the Beijing, Xi'an, Tianjin, Kunming, Wuhan, Guangzhou, Changsha, Xiamen, Zhengzhou, Hangzhou, Hefei and Yangzhou schools, which premises we own. Our cash used in investing activities is primarily related to our purchase of land use rights and the premises for the facilities we own and equipment used in our operations, our investment in term deposits and short term investments.

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Net cash used in investing activities amounted to US\$1,256.4 million in the fiscal year ended May 31, 2020, compared to US\$574.7 million in the fiscal year ended May 31, 2019 and US\$407.1 million in the fiscal year ended May 31, 2018.

Net cash used in investing activities in the fiscal year ended May 31, 2020 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$715.9 million, purchase of term deposits in the amount of US\$249.0 million and the purchase of property and equipment in the amount of US\$309.5 million in connection with the expansion of our school network.

Net cash used in investing activities in the fiscal year ended May 31, 2019 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$162.7 million, purchase of term deposits in the amount of US\$104.2 million and the purchase of property and equipment in the amount of US\$269.1 million in connection with the expansion of our school network.

Net cash used in investing activities in the fiscal year ended May 31, 2018 was primarily attributable to net purchase of short term held-to-maturity investments in the amount of US\$224.5 million, term deposits in the amount of US\$117.2 million and the purchase of property and equipment in the amount of US\$214.3 million in connection with the expansion of our school network.

Financing Activities

Net cash used in financing activities amounted to US\$ 17.9 million in the fiscal year ended May 31, 2020, compared to net cash provided by financing activities of US\$266.6 million in the fiscal year ended May 31, 2019 and net cash used in financing activities of US\$74.9 million in the fiscal year ended May 31, 2018.

Net cash used in financing activities in the fiscal year ended May 31, 2020 was primarily attributable to proceeds from long-term loan in the amount of US\$20.0 million and contingent consideration payments made after a business combination in the amount of US\$18.3 million.

Net cash provided by financing activities in the fiscal year ended May 31, 2019 was primarily attributable to proceeds from issuance of ordinary shares relating to the IPO of Koolearn in the amount of US\$233.3 million.

Net cash used in financing activities in the fiscal year ended May 31, 2018 was primarily attributable to dividend paid to the shareholders in the amount of US\$71.2 million.

Holding Company Structure

Overview

We are a holding company with no material operations of our own. We conduct substantially all of our education business in China through contractual arrangements with our variable interest entities, and their schools and subsidiaries and shareholders. See “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 Beijing Xuncheng, Its Subsidiaries and Shareholders” for a summary of these contractual arrangements. In the fiscal years ended May 31, 2018, 2019 and 2020, our variable interest entities contributed in aggregate 98.8%, 98.7% and 96.5%, respectively, of our total net revenues. Our operations not conducted through contractual arrangements with our variable interest entities primarily consist of the leasing of our commercial property. As of May 31, 2019 and 2020, our variable interest entities accounted for an aggregate of 67.5% and 74.0%, respectively, of our total assets, and 90.5% and 93.9%, respectively, of our total liabilities. The assets not associated with our variable interest entities primarily consist of cash and cash equivalents, term deposits and short-term investments. As of May 31, 2019 and 2020, US\$421.7 million and US\$344.5 million, respectively, of these assets were denominated in U.S. dollars, and US\$2,774.0 million and US\$3,172.9 million, respectively, of these assets were denominated in RMB and the remaining are denominated in other foreign currencies, including British pounds and Hong Kong dollars.

As a holding company, our ability to pay dividends and other cash distributions to our shareholders depends in part upon dividends and other distributions paid to us by our PRC subsidiaries. The amount of dividends paid by our PRC subsidiaries to us primarily depends on the service fees paid to our PRC subsidiaries from our variable interest entities, and, to a lesser degree, our PRC subsidiaries' retained earnings. As of May 31, 2018, 2019 and 2020, the total amount of service fees payable to our PRC subsidiaries from our variable interest entities under the service agreements was US\$369.6 million, US\$412.8 million and US\$429.8 million, respectively. Conducting our operations through contractual arrangements with our variable interest entities entails a risk that we may lose the power to direct the activities that most significantly affect the economic performance of our variable interest entities, which may result in our being unable to consolidate their financial results with our results and may impair our access to their cash flow from operations and thereby reduce our liquidity. See "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 some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations" and "We rely on contractual arrangements for our operations in China, which may not be as effective in providing operational control as direct ownership."

Dividend Distributions

Under PRC law, each of our PRC subsidiaries, variable interest entities and their respective subsidiaries which is not a for-profit private school is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory surplus reserve until such reserve reaches 50% of its registered capital and to further set aside a portion of its after-tax profit to fund the reserve fund at the discretion of our board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. In addition, each of our schools that requires or does not require reasonable returns in China is required to allocate a certain amount out of its annual net income or annual increase in the net assets, if any, to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. For our schools which have elected to require reasonable returns, this amount shall be no less than 25% of the annual net income of the school, and for our schools which have elected not to require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any. Upon the effectiveness of the Amended Law for Promoting Private Education in September 2017, sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law and other relevant laws and regulations. Our PRC subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations.

Pursuant to contractual arrangements that our wholly-owned subsidiaries in China have with our variable interest entities, the earnings and cash of variable interest entities and their schools and subsidiaries are used to pay service fees in RMB to our PRC subsidiaries in the manner and amount set forth in these agreements. After paying the applicable withholding taxes and making appropriations for its statutory reserve requirement, the remaining net profits of our PRC subsidiaries would be available for distribution to three Hong Kong-incorporated intermediate holding companies wholly owned by our company, and from these three Hong Kong-incorporated intermediate holding companies to our company. See "Item 4. Information on the Company—C. Organizational Structure" for a diagram of our corporate structure. As of May 31, 2020, the net assets of our PRC subsidiaries and variable interest entities and their schools and subsidiaries which were restricted due to statutory reserve requirements and other applicable laws and regulations, and thus not available for distribution, were in aggregate US\$513.7 million, and the net assets of our PRC subsidiaries and variable interest entities and their schools and subsidiaries which were unrestricted and thus available for distribution were in aggregate US\$2,223.6 million. We do not believe that these restrictions on the distribution of our net assets will have a significant impact on our ability to timely meet our financial obligations in the future. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends and other distributions on equity paid by our wholly-owned subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries or New Oriental China and its schools and subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business" for more information.

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, OMO system and bookstores has required significant investment. Our capital expenditures were US\$214.3 million, US\$269.1 million and US\$309.5 million in the fiscal years ended May 31, 2018, 2019 and 2020, 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, 2020 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 Capabilities and Infrastructure

Our continuous development in technology capabilities has contributed to our sustained success in the private education industry. We believe our strong technology capabilities enable us to deliver a superior student experience and improve our operational efficiency. We employ experienced research and development personnel to build, maintain and upgrade our technologies and systems. With the development of our online and offline integration, we have increased our research and development staff in recent years. We had approximately 900, 1,800 and 4,000 research and development personnel as of May 31, 2018, 2019 and 2020, respectively.

Our online and offline integration

We have integrated our offline network and operations with online technology for our educational services and operations. Our OMO system serves as the core of this integration. We developed and launched our OMO system in 2014 as a standardized digital classroom teaching system to digitalize our offline teaching materials and education resources. Capitalizing on our technology advancements, we continued to upgrade the functions and features of our OMO system over the years and it has evolved into an online education system, with a comprehensive set of technologies and initiatives that complements and supports students' offline learning activities and improves students' learning experience. Our OMO system has been extensively integrated into our educational services and operations.

Leveraging our big data analytics capabilities, our OMO system provides multiple interactive online learning features that benefit students, teachers, and parents, including offering self-adaptive and interactive courseware to students, pushing customized content to students, recommending additional courses based on their online study records and performance, offering real-time feedback to parents to help improve students' academic performance and closely connecting teachers, students and parents. For example, we have developed the Visible Progress System (VPS), which provides a proprietary seven-step teaching method and divides students' grasp of knowledge into six levels to create clear measurement standards that visualizes students' learning progress. This allows students to immediately and clearly see the results of their own efforts and parents and teachers to monitor each student's learning progress. Students have a clearer understanding of which level they have achieved, and the requirements for the next stage of their learning. Teachers can give targeted guidance to students during the teaching process. Our OMO system also helps teachers prepare lessons, both those delivered online and offline, through a standardized and structured process. Based on our rich database, teaching materials can be generated automatically and tailored to the needs of the specific classes.

The integration of online and offline education powered by our OMO system also allows us to quickly adapt to the constantly evolving private education industry trends, further strengthening our leadership position in the private education industry. We have achieved high scalability with our dual-teacher model tailored to students in lower-tier cities and offered new innovative course offerings to address unmet student demands.

Big data analytics technology

Throughout our long operating history, we have accumulated a large student data base, including complex students' learning behavior and performance data, and extensive data on teaching techniques, materials, and resources, while maintaining a high standard of data protection and privacy. We have built strong data analytics capabilities using algorithms, models and data analytics tools. Our OMO system leverages big data analysis to enhance our operational efficiency, including understanding students' learning needs and generating customized teaching content and services for each student, as well as allowing teachers to prepare lessons through a standardized and structured process. Our OMO system not only benefits from our extensive data accumulated over our long operating history and as a result of our large scale, but also constantly accumulates more data from all participants in the education ecosystem, such as students, teachers, parents, and administrators, through a wide range of interfaces and terminals. As the database expands with the accumulation of new data, we continue to advance and evolve our data analytics capabilities. The continued accumulation of data also enables us to develop new teaching services, which in turn feeds new data back into the system, creating a virtuous cycle.

AI-powered technologies

Our access to a vast amount of student data enables us to develop and refine robust AI technologies. We have developed a series of AI-driven learning systems and learning tools to improve teaching and learning efficiency, including:

Proprietary self-adaptive learning system. Since 2014, we have developed our self-adaptive learning system which dynamically adjusts the course content based on students' in class performance and progress to help them to better grasp key knowledge points.

Proprietary computerized assessment testing system. We have developed our computerized assessment testing system which tests students' capabilities and presents summary reports on students' performance in class and within their student group.

Interactive courseware. We have developed digital interactive courseware which standardizes course materials and provides more interaction between teachers and students.

Realskill. Realskill is a learning platform developed by a joint venture between our company and a AI company in China. The platform utilizes our teaching expertise, materials, data and other resources with deep learning algorithms. The platform automatically and intelligently grades and comments on students' writing for IELTS and TOEFL and speaking practices for TOEFL based on AI-powered analysis of authentic test materials. The platform can be used by students for personal learning purposes and teaching institutions for teaching services and platform and engine access.

Technology Platform and Infrastructure

Our technology platform is designed to provide systems that help distinguish ourselves in the marketplace, operate cost-effectively and accommodate future growth. Our technology platform is a combination of our proprietary self-adaptive learning systems, content management systems, interactive courseware, exam platforms, computerized assessment testing systems, a proprietary Visible Progress System, and big data analytics. We have been investing in infrastructure to achieve simplification of the storage and processing of large amounts of data, facilitation of the deployment and operation of large-scale programs and services, automation of much of the administration of our business, and the ability to scale both capacity and functionality and build large clusters seamlessly.

One of our ongoing focuses is to maintain reliable systems. We have implemented performance monitoring for all key web and business systems to enable us to respond quickly to potential problems. Based on cluster technology, our system can identify errors and isolate failed servers automatically so that our customers can access our services at any time. Our websites are hosted at third party facilities in Beijing. These facilities provide redundant utility systems, a backup electric generator and 24-hour a day server support. All servers have redundant power supplies and file systems to maximize system and data availability. We regularly back up our database on a server hosted at an Internet data center to minimize the impact of data loss due to system failures. We do not capitalize any related costs.

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Application of 5G

We have partnered with hardware service providers and telecom operators to provide remote education services leveraging 5G technologies to further differentiate us from smaller-scale peers and at the same time reduce reliance on local teachers. We have also been helping students from remote and less developed areas to gain access to high quality teaching content with the help of 5G technology and we are committed to continuing to do so as the technology improves.

Intellectual Property

Our trademarks, copyrights, trade secrets and other intellectual property rights distinguish our services and products from those of our competitors and contribute to our competitive advantage in our target markets. To protect our brand and other intellectual property, we rely on a combination of trademark, copyright and trade secrets laws as well as confidentiality agreements with our employees, contractors and others. As of May 31, 2020, we had 23 works of art copyright and 31 software copyrights in China relating to various aspects of our operations, and 16 main trademark registrations in China, of which “”, “”, and “” have been recognized as “well-known trademarks” in civil action adjudicated and/or administrative determination in China. Our main websites are located at www.xdf.cn, www.neworiental.org and www.koolearn.com. In addition, we have registered other domain names, including dogwood.com.cn, blingabc.com, ileci.com, donut.cn, 51pigai.com and steamxdf.com.

We have adopted guidelines, procedures and safeguards designed to educate our employees and contractors regarding the importance of respecting the intellectual property rights of third parties, and detect and prevent any conduct or activities by our employees or contractors that infringe or have the potential to infringe upon such third-party rights. The guidelines specify certain key principles and policies that we require all of our employees and contractors to uphold as a fundamental condition of their employment. The procedures and safeguards we have implemented to ensure compliance with these principles and policies include the assignment of dedicated staff to monitor and enforce compliance with these intellectual property guidelines, including in particular our content control group, which reviews the content of our course materials to ensure that no infringing materials are used in our classrooms. We have also made efforts to ensure that our marketing materials are reviewed and approved by appropriate management before being distributed to the public. We believe these guidelines, procedures and safeguards increase our ability to avoid infringing or potentially infringing activities, reduce our exposure to third party claims and protect our reputation as a company that respects the intellectual property rights of third parties.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased limited liability insurance for some of our schools and learning centers. We also provide social security insurance for our employees as required by PRC law. We maintain key-man life insurance. We consider our insurance coverage to be in line with that of other private education providers in China.

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 2020 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.

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F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of May 31, 2020:

<i>(in thousands of US\$)</i>	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Lease Obligations ⁽¹⁾	1,611,210	407,854	670,795	355,577	176,984
Purchase and Leasehold Improvements Obligations ⁽²⁾	33,049	33,049	—	—	—
Long-Term Loan Obligations	120,000	—	120,000	—	—
Other Commitment ⁽³⁾	5,095	3,309	1,786	—	—
Total	1,769,354	444,212	792,581	355,577	176,984

(1) Represents lease obligations under our facility leases.

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

(3) Represents interests to be paid for the long-term loan entered in December 2018 as discussed in Note 14.

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.

Name	Age	Position/Title
Michael Minhong Yu	57	Executive Chairman
Chenggang Zhou	58	Director and Chief Executive Officer
Zhihui Yang	46	Chief Financial Officer
Louis T. Hsieh	55	Director
Robin Yanhong Li	51	Independent Director
Denny Lee	52	Independent Director
John Zhuang Yang	65	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. Mr. Yu also serves as the chairman and non-executive director of our majority-owned subsidiary Koolearn Technology Holding Limited (HKEX: 1797), a leading online provider of extracurricular education services in China listed on the Hong Kong Stock Exchange, 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. Mr. Yu served as a director of Sunlands Technology Group (NYSE: STG) from August 2017 (and an independent director from March 2018) to June 2019. 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.

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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 served as the chief financial officer of NIO Inc. (NYSE: NIO), an NYSE-listed electronic vehicle company in China, from May 2017 to October 2019. Mr. Hsieh also serves as an independent director of JD.com Inc. (Nasdaq: JD; HKEX: 9618), a leading technology driven e-commerce company in China listed on Nasdaq and the Hong Kong Stock Exchange, and an independent director of Yum China Holdings, Inc. (NYSE: YUMC; HKEX: 9987), a restaurant company in China listed on the NYSE and Hong Kong Stock Exchange. Prior to joining us in 2005, Mr. Hsieh was the chief financial officer of ARIO Data Networks, Inc. in San Jose, California from 2004 to 2005. Prior to that, Mr. Hsieh was a managing director for the private equity firm of Darby Asia Investors (HK) Limited from 2002 to 2003. From 2000 to 2002, Mr. Hsieh was the managing director and the Asia-Pacific tech/media/telecoms head of UBS Capital Asia Pacific, the private equity division of UBS AG. From 1997 to 2000, Mr. Hsieh was a technology investment banker at JP Morgan in San Francisco, California, where he was a vice president, and Credit Suisse First Boston in Palo Alto, California, where he was an associate. From 1990 to 1996, Mr. Hsieh was a corporate and securities attorney at White & Case LLP in Los Angeles. Mr. Hsieh holds a bachelor's degree in industrial engineering and engineering management from Stanford University, an MBA degree from the Harvard Business School, and a J.D. degree from the University of California at Berkeley.

Mr. Robin Yanhong Li has served as our independent director since September 6, 2006. Mr. Li is a co-founder of Baidu, Inc. (Nasdaq: BIDU), or Baidu, a leading search engine, knowledge and information centered Internet platform and AI company in China listed on Nasdaq. Mr. Li has served as the chairman of the board of directors of Baidu since its inception in January 2000 and as its chief executive officer since February 2004. He served as the president of Baidu from February 2000 to December 2003. Prior to founding Baidu, Mr. Li worked as an engineer at Infoseek, a pioneer in the search industry, and as a senior consultant for IDD Information Services. Mr. Li currently serves on the board of Trip.com Group Limited, a leading one-stop travel service provider in China listed on Nasdaq (Nasdaq: TCOM). Mr. Li received a bachelor's degree in information science from Peking University and a master's degree in computer science from the State University of New York at Buffalo.

Mr. Denny Lee has served as our independent director since September 6, 2006. Mr. Lee has served as a director of NetEase, Inc. (Nasdaq: NTES; HKEX: 9999), formerly known as Netease.com, Inc., a leading internet technology company in China listed on Nasdaq and the Hong Kong Stock Exchange, since April 2002. He was the chief financial officer of NetEase.com, Inc. from April 2002 to June 2007 and its financial controller from November 2001 to April 2002. Prior to joining NetEase.com, Inc. in 2001, Mr. Lee worked in the Hong Kong office of KPMG for more than ten years. Mr. Lee currently serves as the chairman of the audit committees and an independent non-executive director on the boards of Concord Medical Services Holdings Limited (NYSE: CCM), Jianpu Technology Inc. (NYSE: JT) and NIO Inc. (NYSE: NIO), which are listed on the New York Stock Exchange, and as an independent non-executive director on the board of China Metal Resources Utilization Limited (HKEX: 1636), which is listed on the main board of Hong Kong Stock Exchange. Mr. Lee graduated from the Hong Kong Polytechnic University majoring in accounting and is a member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.

Dr. John Zhuang Yang has served as our independent director since September 3, 2007. Dr. Yang currently serves as a professor of management at National School of Development of Peking University and the academic director of the Doctor of Professional Services in Business (DPS) Program at National School of Development of Peking University. Dr. Yang holds a Ph.D. degree in business administration from Columbia University, a master's degree in sociology from Columbia University, a master's degree in international and public affairs from the Woodrow Wilson School of Public and International Affairs at Princeton University, and a bachelor's degree from the English Language and Literature Department of Peking University.

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.

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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, 2020, we paid an aggregate of approximately US\$1.8 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\$106,000. 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.

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. We do not have any outstanding awards under our 2006 plan.

The following paragraphs describe the principal terms of the 2006 plan.

Types of Awards. We may grant the following types of awards under our 2006 plan:

- options to purchase our common shares;
- restricted shares, which are common shares issued to the grantee that are subject to transfer restrictions, right of first refusal, repurchase, forfeiture, and other terms and conditions as established by our plan administrator; and restricted share units, which may be earned upon the passage of time or the attainment of performance criteria and which may be settled for cash, common shares or other securities, or a combination of cash, common shares or other securities as established by our plan administrator;

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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.

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 2016 plan has a term of 10 years, unless terminated earlier. As of May 31, 2020, an aggregate of 1,256,505 non-vested equity shares remain outstanding under the 2016 Share Incentive Plan, excluding non-vested equity shares that were forfeited or cancelled after the relevant grant date.

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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.

The following table summarizes, as of September 7, 2020, the outstanding non-vested equity shares granted under our 2016 plan to our directors and executive officers.

<u>Name</u>	<u>Common Shares Underlying Outstanding NES</u>	<u>Exercise Price (US\$/Share)</u>	<u>Date of Grant</u>	<u>Date of Expiration</u>
Chenggang Zhou	*	†	10/27/2017	12/31/2020
	*	†	10/24/2018	06/30/2021
Zhihui Yang	*	†	10/27/2017	12/31/2020
	*	†	10/24/2018	06/30/2021
Louis T. Hsieh	*	†	10/27/2017	12/31/2020
	*	†	10/24/2018	06/30/2021

* Less than 1% of our total outstanding voting securities.

† Non-vested equity share awards.

Koolearn Share Option Schemes

On July 13, 2018, the board of directors of Koolearn approved an employee's share option plan, or the Koolearn Pre-IPO Share Option Scheme, under which Koolearn is authorized to issue up to 47,836,985 ordinary shares pursuant to awards granted to the directors, senior management, employees and contractors of Koolearn. Koolearn has granted options underlying all of its shares issuable under the Pre-IPO Share Option Scheme. As of May 31, 2020, options to subscribe for an aggregate of 39,251,485 shares remain outstanding under the Pre-IPO Share Option Scheme, excluding options that were forfeited, cancelled or exercised after the relevant grant date.

On January 30, 2019, the board of directors of Koolearn approved an employee's share option plan, or the Koolearn Post-IPO Share Option Scheme, under which Koolearn is authorized to issue up to 91,395,910 ordinary shares pursuant to awards granted to, among others, directors, employees of Koolearn or its affiliate. Koolearn has granted options underlying an aggregate of 40,000,000 shares under the Post-IPO Share Option Scheme, of which options underlying 1,801,000 shares were forfeited. As of May 31, 2020, options to subscribe for an aggregate of 38,199,000 shares remain outstanding under the Post-IPO Share Option Scheme, excluding options that were forfeited, cancelled or exercised after the relevant grant date.

C. Board Practices

Our board of directors currently consists of six directors, which consist of three independent directors and three directors who are our executive officers or employed by us. Section 303A.01 of the NYSE Listed Company Manual requires each listed company to have a majority of independent directors on the board of directors after the first anniversary of the company's listing on the NYSE. We are not required under the laws of the Cayman Islands to have a majority of independent directors on our board of directors. Pursuant to the exception granted to foreign private issuers under Section 303A.00 of the NYSE Listed Company Manual, we have elected to follow our home country practice with respect to our board of directors. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. Our independent directors hold executive sessions, during which only the independent directors are present, at least once a year. Depending on the nature of the discussion at an executive session, each of the three independent directors may preside at the executive sessions. In the fiscal year ended May 31, 2020, our board held meetings or passed resolutions by unanimous written consent 14 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.

In the fiscal year ended May 31, 2020, the audit committee held meetings or passed resolutions by unanimous written consent twice, and also approved certain other matters together with the rest of the board members five 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, 2020, the compensation committee passed resolutions by unanimous written consent once, and also approved certain matters together with the rest of the board members once.

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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, 2020, the nominating and corporate governance committee passed resolutions by unanimous written consent once, and also 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.

Terms of Directors and Officers

Our officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office by ordinary resolution or the unanimous written resolution of all shareholders. A director will be removed from office automatically if, among other things, the director (1) becomes bankrupt or makes any arrangement or composition with his creditors; or (2) is found by our company to be or becomes of unsound mind.

D. Employees

We had 44,531, 54,758 and 69,438 full-time employees and 9,711, 9,569 and 11,689 contract teachers and staff as of May 31, 2018, 2019 and 2020, respectively. We enter into employment contracts with our full-time employees which contain standard confidentiality provisions. We also enter into standalone confidentiality and non-compete agreements with our key full-time employees. Our contract teachers generally enter into exclusive service agreements with us.

As required by regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments for our PRC-based full-time employees, including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing insurance. We are required under PRC law to make contributions from time to time to employee benefit plans for our PRC-based full-time employees at specified percentages of the salaries, bonuses and certain allowances of such employees, up to a maximum amount specified by the local governments in China.

Our employees are not covered by any collective bargaining agreement. We consider our relations with our employees to be generally good.

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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 who owns beneficially more than 5% of our common shares.

Except as specifically noted, the beneficial ownership is as of September 7, 2020.

	Shares Beneficially Owned	
	Number ⁽¹⁾	% ⁽²⁾
Directors and Executive Officers:		
Michael Minhong Yu ⁽³⁾	19,750,272	12.4%
Chenggang Zhou	*	*
Zhihui Yang	*	*
Louis T. Hsieh	*	*
Robin Yanhong Li	*	*
Denny Lee	*	*
John Zhuang Yang	*	*
All Directors and Executive Officers as a Group ⁽⁴⁾	20,450,883	12.9%
Principal Shareholders:		
Tigerstep Developments Limited ⁽⁵⁾	19,750,272	12.4%

* 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) 159,110,715, being the number of common shares outstanding as of September 7, 2020 and (ii) the number of non-vested equity shares held by such person or group that will vest within 60 days after September 7, 2020.
- (3) Includes 19,750,272 common shares held by Tigerstep Developments Limited, a British Virgin Islands company wholly owned by Mr. Michael Minhong Yu. Through a trust arrangement, Mr. 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 and (ii) non-vested equity shares that will vest within 60 days after September 7, 2020 held by all of our directors and senior executive officers as a group.
- (5) Tigerstep Developments Limited, a company incorporated in the British Virgin Islands, is wholly owned by Mr. 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.

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 7, 2020, we had 159,110,715 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 90.0% of our total outstanding common shares. The number of beneficial owners of our ADSs in the United States is 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

Agreements with Koolearn

Deed of Non-Competition Undertakings

On March 28, 2019, Koolearn completed its initial public offering and the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited, or the HKEx. We issued a deed of non-competition undertakings on August 28, 2018 in favor of Koolearn with respect to the ongoing relationship between us and Koolearn after the listing of Koolearn's securities on the HKEx. Pursuant to this deed, we undertake, among other things, not to, and procure our group entities not to, carry on engage or participate in online education services within China, except for (i) making minority investments in a business that provide online education services in China, or (ii) operating our existing Blingabc and Leci businesses with the restrictions set forth in the deed of non-competition undertakings, provided, however, if we propose to issue or transfer any equity interest in these businesses, Koolearn has the option to purchase all or any portion of the offered equity interest. The foregoing undertaking will end if Koolearn's securities cease to be listed on HKEx or 12 months after we cease to be the controlling shareholder of Koolearn, whichever is earlier.

Contractual Arrangements with New Oriental China, Its Schools, 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 the contractual arrangements we have entered into with New Oriental China and its subsidiaries and shareholder.

Contractual Arrangements with Beijing Xuncheng, Its Subsidiaries and Shareholders

See "Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with Beijing Xuncheng, Its Subsidiaries and Shareholders" for a summary of the contractual arrangements we have entered into with Beijing Xuncheng, its subsidiaries and shareholders.

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 China Limited, or Metropolis Holding. In March 2012, Fine Talent Holdings Limited, a British Virgin Islands company wholly-owned by Mr. Michael Minhong Yu, our executive chairman, purchased all of the equity interests in Metropolis Holding from its former owner which was and is unrelated to us. As a result, our lease agreements with Metropolis Holding became related parties transactions. As of May 31, 2020, 12 of our operating entities rented office space from Metropolis Holding pursuant to a series of lease agreements. The terms and conditions, including rental rates, of these lease agreements are generally the same as other tenants in the same building. These lease agreements are typically three years and can be renewed upon mutual agreements upon expiration. The lease arrangements were approved by all of our directors, including all of the disinterested directors. During the fiscal year ended May 31, 2020, we accrued a total of US\$9.6 million rent to Metropolis Holding. As of May 31, 2020, amounts due from Metropolis Holding were US\$3.5 million, which represented prepaid rent and rental deposit.

New Oriental Education and Culture Industry Investment Fund

In July 2018, New Oriental Education and Culture Industry Fund (Zhangjiagang) Partnership (Limited Partnership), or the New Oriental Education and Culture Industry Investment Fund, a 7-year growth equity fund with the total committed capital of RMB1.5 billion, was established. One of the general partners of the fund is an entity invested by Mr. Michael Minhong Yu and the other general partner is an unrelated third party. We participate in the fund as a limited partner and invested RMB500 million in the fund. The fund will focus on investment opportunities in the education industry and expects to invest in the whole industry chain of education with emphasis on six main themes, including pre-school education, K-12 education, non-disciplinary education, occupational education, international education and AI in education. As of May 31, 2019, we had US\$8.7 million due from the New Oriental Education and Culture Industry Investment Fund. The outstanding balance has been fully repaid and there is no amount due from the related party as of May 31, 2020.

Loans to a Related Party

Beijing Dianshi Jingwei Technology Co., Ltd., or Dianshi Jingwei, is an equity method investee of us. As of May 31, 2020, the outstanding balance of the loans provided to Dianshi Jingwei were US\$21.0 million, with an annual interest rate of 10%. The loans were initially granted in 2018 and the maturity date of the loans were extended several times and recorded as non-current assets as of May 31, 2020. During the year ended of May 31, 2020, no interests were received by us. The extended loans were personally guaranteed by Mr. Michael Minhong Yu, our executive chairman, and Mr. Yunhai Jia, the chief executive officer of Dianshi Jingwei. According to the loan agreements, if Dianshi Jingwei defaults on the loan payments and interests, we have the right to convert the unpaid loans into Dianshi Jingwei's equity. During the year ended of May 31, 2020, Dianshi Jingwei repaid US\$701 thousand to us.

Transactions with Other Related Parties

During the fiscal year ended May 31, 2020, we recorded revenue in the amount of US\$479 thousand from other related parties. As of May 31, 2020, we had US\$1.6 million in aggregate due from other related parties and US\$1.4 million in aggregate due to other related parties.

C. Interests of Experts and Counsel

Not applicable.

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 may be subject to legal or regulatory proceedings, investigations and claims incidental to the conduct of our business.

Litigation

Our company and certain of our officers and directors have been named as defendants in a putative securities class action filed in the United States District Court for the District of New Jersey: Amy Chan v. New Oriental Education & Technology Group Inc., et al., Civil Action No. 16-cv-9279-KSH-CLW (filed on December 15, 2016). On March 30, 2017, the court entered an order appointing lead plaintiffs of this action. On May 30, 2017, the lead plaintiffs filed a first amended complaint.

The pending action was purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of their trading in our ADSs between September 28, 2016 and December 1, 2016. The first amended complaint alleges that our company's public filings contained material misstatements and omissions in violation of the U.S. federal securities laws. On July 31, 2017, our company filed a motion to dismiss the first amended complaint. On July 3, 2019, the court granted our company's motion to dismiss the first amended complaint in its entirety for failure to state a claim.

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On August 19, 2019, the lead plaintiffs filed a second amended complaint advancing similar allegations against defendants as the first amended complaint. On September 3, 2019, our company filed a motion to dismiss the second amended complaint which motion is currently pending before the court. On May 5, 2020, the court administratively terminated the case upon the parties' notification of their intention to settle the matter, if possible. On June 3, 2020, the lead plaintiffs filed a motion for preliminary approval of a class action settlement, which is now pending before the court. The case remains ongoing.

We believe the case is without merit and intend to defend the action vigorously. For risks and uncertainties relating to the pending case against us, please see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—We and certain of our directors and officers have been named as a defendant in a putative shareholder class action lawsuit that could have a material adverse impact on our business, financial condition, results of operations, cash flows and reputation."

We have been subject to copyright, trademark and trade name infringement claims and legal proceedings in the past which related to, among other things, infringement of third parties' copyrights in materials distributed by 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."

Dividend Policy

On July 25, 2017, our board of directors declared a special cash dividend in the amount of US\$0.45 per ADS. The cash dividend was paid in October 2017 to shareholders of record at the close of business on September 6, 2017. The aggregate amount of cash dividends paid was approximately US\$71.2 million. We currently do not have any dividend policy.

We are a holding company incorporated in the Cayman Islands. We may 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 for our cash requirements, including any debt we may incur. PRC regulations may restrict the ability of our PRC subsidiaries and New Oriental China and its schools and subsidiaries to pay dividends to us. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We may rely on dividends and other distributions on equity paid by our wholly-owned subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries or New Oriental China and its schools and subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business."

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.

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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.

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, Cap 22 (Law 3 of 1961, as consolidated and revised) 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 “Item 6. Directors, Senior Management and Employees—C. Board Practices—Terms of Directors and Officers.”

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.

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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.

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.

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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. An exempted company incorporated under the laws of the Cayman Islands, is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the NYSE. Accordingly, for so long as our shares are listed on the NYSE, we are not required to maintain a beneficial ownership register.

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 vote, he must still comply with his duty to act bona fide in the best interest of our company.

In comparison, under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

Shareholder Proposals. Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided that it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

There are no statutory requirements under Cayman Islands law allowing our shareholders to requisition a shareholders' meeting. However, under our amended and restated articles of association, on the requisition of shareholders representing not less than 33% of the voting rights entitled to vote at general meetings, the board shall convene an extraordinary general meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings, and our amended and restated articles of association do not require us to call such meetings every year.

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Cumulative Voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Cayman Islands law, our amended and restated articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors. Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our amended and restated articles of association, directors may be removed by an ordinary resolution of shareholders.

Transactions with Interested Shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Law, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our amended and restated articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the consent in writing of the holders of two-thirds of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under Cayman Islands law, our amended and restated memorandum and articles of association may only be amended by a special resolution of our shareholders.

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Rights of Non-Resident or Foreign Shareholders. There are no limitations imposed by our amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

Directors' Power to Issue Shares. Subject to applicable law, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with New Oriental China, Its Schools and Subsidiaries and Shareholder” and “—Contractual Arrangements with Beijing Xuncheng, Its Subsidiaries and Shareholders” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Foreign Currency Exchange.”

E. Taxation

The following discussion of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or common shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report on Form 20-F, all of which are subject to change. This discussion does not deal with all possible tax consequences relating to an investment in our ADSs or common shares, such as the tax consequences under state, local and other tax laws. Accordingly, each investor should consult its own tax advisor regarding the tax consequences of an investment in our ADSs or common shares applicable under its particular circumstances.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

PRC Taxation

Under the PRC Enterprise Income Tax Law, or the EIT Law, an enterprise established outside the PRC with “de facto management body” within the PRC is considered as a “resident enterprise,” meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes, although the dividends paid to one resident enterprise from another may qualify as “tax-exempt income.” The implementation rules of the EIT Law define de facto management as “substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. The SAT has issued circular to provide 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 body” located within China if all of the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations function are mainly in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (iv) at least half of the enterprise’s directors with voting right or senior management reside in the PRC. In addition, the SAT issued a bulletin on August 3, 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 the administration measures should be implemented, regardless of whether they are controlled by PRC enterprises or PRC individuals. In addition, the SAT issued a bulletin on January 29, 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. If we are deemed to be a PRC resident enterprise, dividends distributed to our non-PRC enterprise shareholders by us, or the gain our non-PRC enterprise shareholders 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.

For more information on PRC taxation applicable to our company, see “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Taxation” and “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Taxation.”

U.S. Federal Income Taxation

The following discussion applies only to U.S. Holders (as defined below) that hold our ADSs or common shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based upon existing U.S. federal tax law as in effect on the date of this annual report, which is subject to differing interpretations or change (possibly with retroactive effect), and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular holder or to persons in special tax situations such as:

- banks;
- financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities (including private foundations);
- pension plans;
- cooperatives;
- holders that are not U.S. Holders;
- persons whose functional currency is not the U.S. dollar;
- real estate investment trusts;
- regulated investment companies;

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- persons liable for alternative minimum tax;
- persons required to accelerate the recognition of any item of gross income with respect to our shares as a result of such income being recognized on an applicable financial statement;
- persons that actually or constructively own 10% or more of our stock (by vote or value);
- persons holding ADSs or common shares through partnerships or other pass-through entities; or
- persons who acquired ADSs or common shares pursuant to the exercise of any employee share option or otherwise as compensation.

U.S. HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL AND FOREIGN TAX, MEDICARE TAX AND NON-INCOME TAX (SUCH AS THE UNITED STATES FEDERAL ESTATE OR GIFT TAX) CONSIDERATIONS OF THE OWNERSHIP AND DISPOSITION OF ADSs OR COMMON SHARES.

The discussion below of the United States federal income tax consequences to “U.S. Holders” will apply if you are the beneficial owner of ADSs or common shares and you are, for U.S. federal income tax purposes,

- a citizen or individual resident of the U.S.;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the supervision of a court within the U.S. and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of common shares or ADSs, the tax treatment of a partner in such partnership will depend upon the status of the partner and the activities of the partnership. Partners in a partnership holding our common shares or ADSs should consult their tax advisors regarding the United States federal income tax considerations relating to the ownership or disposition of our common shares or ADSs.

If you hold ADSs, it is generally expected that you should be treated as the beneficial owner of the underlying common shares represented by those ADSs for U.S. federal income tax purposes. The remainder of this discussion assumes that a U.S. Holder of our ADSs will be treated in this manner.

Taxation of Distributions on the ADSs or Common Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of all our distributions paid to you with respect to the ADSs or common shares out of our current or accumulated earnings and profits, will generally be included in your gross income as ordinary dividend income on the date of receipt by the depository, in the case of ADSs, or by you, in the case of common shares. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution paid will generally be reported as a “dividend” for U.S. federal income tax purposes. The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

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With respect to non-corporate U.S. Holders, including individuals, dividends may be “qualified dividend income” which is taxed at the lower applicable capital gains rate provided that (1) the ADSs or common shares, as applicable, are readily tradable on an established securities market in the United States, or we are eligible for the benefit of the income tax treaty between the U.S. and the PRC, (2) the non-United States corporation is not a passive foreign investment company (as discussed below) for either its taxable year in which the dividend was paid or the preceding taxable year and (3) certain holding period requirements are met. Although we expect our ADSs will be considered to be readily tradable on the NYSE, which is an established securities market in the U.S., there can be no assurance that our ADSs will be considered readily tradable on an established securities market in the future. Since we do not expect that our common shares will be listed on an established securities market in the U.S., it is unclear whether dividends that we pay on our common shares that are not backed by ADSs currently meet the conditions required for the reduced tax rate. In the event, however, that we are deemed to be a PRC resident enterprise under the EIT Law, we may be eligible for the benefits of the U.S.—PRC income tax treaty. U.S. Holders are advised to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or common shares.

Dividends paid on our ADSs and common shares will generally be treated as income from foreign sources for U.S. foreign tax credit purposes and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the EIT Law, a U.S. Holder may be subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or common shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction for U.S. federal income tax purposes in respect of such withholdings, but only for a year in which such U.S. Holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. Holders are advised to consult their tax advisors regarding the creditability of any PRC tax.

Taxation of Disposition of Shares

Subject to the passive foreign investment company rules discussed below, a U.S. Holder will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or common share equal to the difference between the amount realized for the ADS or common share and such holder’s tax basis in the ADS or common share. The gain or loss will generally be capital gain or loss. A non-corporate U.S. Holder, including an individual, who has held the ADS or common share for more than one year will be eligible for reduced capital gains rates. The deductibility of capital losses is subject to limitations. Any such gain or loss will generally be treated as U.S. source income or loss. In the event that we are deemed to be a PRC resident enterprise under the EIT Law and gain from the disposition of the ADSs or common shares is subject to tax in the PRC, a U.S. Holder that is eligible for the benefits of the U.S.-PRC treaty may elect to treat the gain as PRC source income. See “—PRC Taxation.” U.S. Holders are advised to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or common shares, including the availability of the foreign tax credit, under their particular circumstances.

Passive Foreign Investment Company Considerations

A non-United States corporation, such as our company, will be a “passive foreign investment company,” or a “PFIC,” for United States federal income tax purposes, if either (1) 75% or more of its gross income for such year consists of certain types of “passive” income or (2) 50% or more of the value of its assets (generally determined on the basis of a quarterly average) during such year is attributable to assets that produce passive income or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are categorized as passive assets and the company’s goodwill and other unbooked intangibles associated with active business activities may generally be classified as active assets. If a non-U.S. corporation directly or indirectly owns at least 25% (by value) of the stock of another corporation, such corporation will be treated, for purposes of the PFIC tests, as owning a proportionate share of the assets and earning a proportionate share of the other corporation’s assets and receiving a proportionate share of the other corporation’s income.

Although the law in this regard is unclear, we treat our VIEs (including their subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we control their management decisions but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we consolidate their operating results in our combined financial statements. If it were determined, however, that we are not the owner of our VIEs (including their subsidiaries) for U.S. federal income tax purposes, we may be or become a PFIC. Assuming that we are the owner of our VIEs (including their subsidiaries) for United States federal income tax purposes, and based upon an analysis of the Company’s income and assets in respect of the 2020 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, 2020. 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, 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 assets and income over time, which are subject to change from year to year. Because 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.

Passive Foreign Investment Company Rules

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or common shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (1) any excess distribution that we make to the U.S. Holder which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid in the three preceding taxable years or, (2) if shorter, the U.S. Holder's holding period for the ADSs or common shares. Under these PFIC rules:

- such excess distribution and/or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or common shares;
- such amount allocated to the current taxable year, and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we were a PFIC (a "pre-PFIC year"), will be taxable as ordinary income;
- such amount allocated to each prior taxable year, other than the current taxable year or a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as applicable, for each such year; and
- an interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than the current taxable year or a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or common shares and any of our non-U.S. subsidiaries is also a PFIC (i.e., a lower-tier PFIC), such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC and would be subject to the rules described above on certain distributions by a lower-tier PFIC and a disposition of shares of a lower-tier PFIC even though such U.S. Holder would not receive the proceeds of those distributions or dispositions. U.S. Holders are advised to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

A U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If a U.S. Holder makes a mark-to-market election for the ADSs or common shares, such holder will include in income for each year that we are treated as a PFIC with respect to such holder an amount equal to the excess, if any, of the fair market value of the ADSs or common shares as of the close of your taxable year over the holder's adjusted basis in such ADSs or common shares. A U.S. Holder will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or common shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the ADSs or common shares included in a U.S. Holder's income for prior taxable years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or common shares, will be treated as ordinary income. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on the ADSs or common shares, as well as to any loss realized on the actual sale or disposition of the ADSs or common shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or common shares. A U.S. Holder's basis in the ADSs or common shares will be adjusted to reflect any such income or loss amounts. If a U.S. Holder makes a valid mark-to-market election, the tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower capital gains rate applicable to qualified dividend income (discussed above under "—Taxation of Distributions on the ADSs or Common Shares") would not apply.

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The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable United States Treasury regulations. Our ADSs are listed on the NYSE, which is a qualified exchange or market for these purposes. Consequently, if the ADSs continue to be listed on the NYSE and are regularly traded, and a U.S. Holder holds ADSs, we expect that the mark-to-market election would be available to such U.S. Holder were we to be or become a PFIC although there can be no assurance in this regard. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we own, a U.S. Holder may continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. In the case of a U.S. Holder who has held ADSs or common shares during any taxable year in respect of which we were classified as a PFIC and continues to hold such ADSs or common shares (or any portion thereof) and has not previously determined to make a mark-to-market election, and who is now considering making a mark-to-market election, special tax rules may apply relating to purging the PFIC taint of such ADSs or common shares.

Alternatively, a U.S. Holder of stock in a PFIC may make a “qualified electing fund” or “QEF” election with respect to such PFIC to elect out of the tax treatment discussed above. A U.S. Holder that makes a valid QEF election with respect to a PFIC will generally include in gross income for a taxable year such holder’s pro rata share of the corporation’s earnings and profits for the taxable year. However, the qualified electing fund election is available only if the PFIC provides such U.S. Holder with certain information regarding its earnings and profits as required under applicable United States Treasury regulations. We do not intend to prepare or provide the information that would enable a U.S. Holder to make a QEF election. Accordingly, U.S. Holders should assume that the QEF Election will not be available.

If a U.S. Holder holds ADSs or common shares in any year in which we are treated as a PFIC with respect to such U.S. Holder, the U.S. Holder will generally be required to file United States Internal Revenue Service Form 8621 and such other form as is required by the United States Treasury Department. U.S. Holders are urged to consult their tax advisor regarding the application of the PFIC rules to their ownership or disposition of our ADSs or common shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We previously filed with the SEC a registration statements on Form F-1 under the U.S. Securities Act of 1933, as amended, with respect to two offerings of our common shares represented by ADSs. We have also filed with the SEC related registration statements on Form F-6 (File No. 333-136862, File No. 333-176069 and File No. 333-201394), as amended, to register the ADSs.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. In particular, we are required to file annually a Form 20-F within four months after the end of each fiscal year. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. Copies of reports and other information, when filed, may also be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1- 800-SEC-0330. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

We will furnish Deutsche Bank Trust Company Americas, the depositary of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders’ meetings and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders’ meeting received by the depositary from us.

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In accordance with NYSE Rule 203.01, we will post this annual report on our website at <http://investor.neworiental.org>. In addition, we will provide hardcopies of our annual report to shareholders, including ADS holders, free of charge upon request.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in liquid investments with original maturities of three months or less and term deposits with maturities of greater than three months and less than a year. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may be lower than expected due to changes in market interest rates. A hypothetical one percentage point decrease in interest rates would have resulted in a decrease of approximately US\$33.6 million in our interest income for the year ended May 31, 2020.

Foreign Exchange Risk

All of our revenues and most of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent denominated in U.S. dollars. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or used any other derivative financial instruments. Although in general, our exposure to foreign exchange risks should be limited, the value of your investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs are traded in U.S. dollars.

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollar-denominated financial assets into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. A hypothetical 10% appreciation of the RMB against the U.S. dollar would have resulted in a decrease of RMB54.3 million in the value of our U.S. dollar denominated financial assets as of May 31, 2020. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

The depositary of our ADS facility, Deutsche Bank Trust Company Americas, shall charge the following fees for the services performed under the terms of the deposit agreement, unless otherwise agreed in writing by us and the depositary; provided, however, that no fees shall be payable upon distribution of cash dividends so long as the charging of such fee is prohibited by the exchange, if any, upon which the ADSs are listed:

- to any person to whom ADSs are issued or to any person to whom a distribution is made in respect of ADS distributions pursuant to stock dividends or other free distributions of stock, bonus distributions, stock splits or other distributions (except where converted to cash), a fee not in excess of US\$5.00 per 100 ADSs (or fraction thereof) so issued under the terms of the deposit agreement to be determined by the depositary;
- to any person surrendering ADSs for cancellation and withdrawal of deposited securities including, inter alia, cash distributions made pursuant to a cancellation or withdrawal, a fee not in excess of US\$5.00 per 100 ADSs (or fraction thereof) so surrendered;
- to any holder of ADSs, a fee not in excess of US\$0.05 per ADS held for the distribution of cash proceeds, including cash dividends or sale of rights and other entitlements, not made pursuant to a cancellation or withdrawal;
- to any holder of ADSs, a fee not in excess of US\$5.00 per 100 ADSs (or portion thereof) issued upon the exercise of rights; and
- for the operation and maintenance costs in administering the ADSs, an annual fee of US\$0.05 or less per ADSs (such fee to be assessed against holders of record as of the date or dates set by the depositary as it sees fit and collected at the sole discretion of the depositary by billing such holders for such fee or by deducting such fee from one or more cash dividends or other cash distributions).

In addition, holders, beneficial owners, persons depositing our common shares for deposit and persons surrendering ADSs for cancellation and withdrawal of deposited securities will be required to pay the following charges:

- taxes (including applicable interest and penalties) and other governmental charges;
- such registration fees as may from time to time be in effect for the registration of our common shares or other deposited securities with the foreign registrar and applicable to transfers of common shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;
- such cable, telex, facsimile and electronic transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of the person depositing or withdrawing common shares or holders and beneficial owners of ADSs;
- the expenses and charges incurred by the depositary in the conversion of foreign currency;
- such fees and expenses as are incurred by the Depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to common shares, deposited securities, ADSs and ADRs;
- the fees and expenses incurred by the depositary in connection with the delivery of deposited securities, including any fees of a central depositary for securities in the local market, where applicable; and
- any additional fees, charges, costs or expenses that may be incurred by the depositary from time to time.

Any other charges and expenses of the depositary under the deposit agreement will be paid by our company upon agreement between the depositary and us. All fees and charges may, at any time and from time to time, be changed by agreement between the depositary and our company but subject, in the case of fees and charges payable by holders or beneficial owners, to the limitations set forth in the Form of ADR.

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We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The fees described above may be amended from time to time.

The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide services until its fees for those services and any other unpaid fees are paid.

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us for the establishment and maintenance of the ADS program and to provide us with assistance in relation to our investor relations program, the training of staff and certain other matters. Further, the depositary has agreed to share with us certain fees payable to the depositary by holders of ADSs. Since the commencement of our most recent fiscal year, we have received a sum of US\$1.8 million for the expenses related to our investor relations program, directors and officers liability and company insurance reimbursement, listing fees and legal service fees. The payment we received is offset against general and administrative expenses.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our management has concluded that, as of May 31, 2020, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15 (f) under the Exchange Act. Our management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of May 31, 2020.

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

Our independent registered public accounting firm has audited our internal control over financial reporting as of May 31, 2020 and has issued an attestation report set forth below.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of New Oriental Education & Technology Group Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of New Oriental Education & Technology Group Inc. and subsidiaries (the “Company”) as of May 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2020, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended May 31, 2020 of the Company and our report dated September 16, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the adoption of the new lease accounting standard, ASC Topic 842, Leases, on June 1, 2019.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China
September 16, 2020

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Denny Lee, an independent director (under the standards set forth in Section 303A of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act) and the chairman of our audit committee, is our audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, vice presidents and any other persons who perform similar functions for us. We have posted a copy of our code of business conduct and ethics on our website at <http://investor.neworiental.org>.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu Certified Public Accountants LLP, our independent registered public accounting firm, for the periods indicated. We did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

<i>(in thousands of US\$)</i>	For the Years Ended May 31,	
	2019	2020
Audit fees ⁽¹⁾	2,138	2,363
Audit related fees ⁽²⁾	736	570
Tax fees ⁽³⁾	71	202
All other fees	83	54

(1) "Audit fees" means the aggregate fees billed for professional services rendered by our independent registered public accounting firm for the audit of our annual consolidated financial statements and the review of our comparative interim financial information.

(2) "Audit related fees" means the fees billed for the audit services provided to our subsidiary or potential investees.

(3) "Tax fees" represents the aggregated fees billed for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice, and tax planning. The policy of our audit committee is to pre-approve all audit and non-audit services provided by Deloitte Touche Tohmatsu Certified Public Accountants LLP, including audit services, audit-related services, tax services and other services as described above, other than those for de minimis services which are approved by the audit committee prior to the completion of the audit.

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

Not applicable.

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

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANTS

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Section 303A.12(a) of the NYSE Listed Company Manual requires each listed company's chief executive officer to certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. We are a Cayman Islands company, and our chief executive officer is not required under applicable Cayman Islands law to make such a certification. Pursuant to the exception granted to foreign private issuers under Section 303A.00 of the NYSE Listed Company Manual, we have followed our home country practice in this regard and have not in the past submitted the certification set forth in Section 303A.12(a) of the NYSE Listed Company Manual.

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. Currently, we have six directors on our board, consisting of three independent directors and three directors who are our executive officers or employed by us. Nevertheless, we have maintained fully independent audit, compensation and nominating and corporate governance committees on our board of directors since the first anniversary of our NYSE listing.

Section 303A.08 of the NYSE Listed Company Manual requires a listed company to obtain its shareholders' approval of all equity-compensation plans, and any material revisions to the terms of such plans. Under Cayman Islands law, we are not required to obtain shareholders' approval for adoption of new equity-compensation plans or amendments to our existing equity incentive plan. Our board amended our 2006 share incentive plan in September 2012 to clarify that the administrator of the plan 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. In addition, our board adopted our 2016 share incentive plan in January 2016. We have followed the home country practice and obtained the board approval but not shareholder approval for amending our 2006 share incentive plan as well as adopting the 2016 share incentive plan as described above.

Section 302 of the NYSE Listed Company Manual requires each issuer to hold an annual meeting of shareholders of the issuer's fiscal year-end. Conyers, Dill & Pearman, our Cayman Islands counsel, has provided a letter to the NYSE certifying that under Cayman Islands law, we are not required to hold annual shareholders meetings every year. We followed home country practice and did not hold an annual meeting of shareholders in the fiscal year of 2020. We may, however, hold annual shareholders meetings in the future.

Other than the requirements discussed above, there are no significant differences between our corporate governance practices and those followed by domestic listed companies as required under the NYSE Listed Company Manual. A copy of our corporate governance guidelines is available on our website at <http://investor.neworiental.org>.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of New Oriental Education & Technology Group Inc. are included at the end of this annual report.

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ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	<u>Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.2 of the Registrant's F-1 registration statement (File No. 333-136825), as amended, initially filed with the Commission on August 22, 2006).</u>
2.1	<u>Form of Registrant American Depositary Receipt (incorporated by reference to Exhibit A to Exhibit (a)(4) of post-effective amendment No. 1 to the registration statement on Form F-6 (File No. 333-176069), filed with the Commission on April 25, 2012)</u>
2.2	<u>Registrant's Specimen Certificate for Common Shares (incorporated by reference to Exhibit 4.2 of the Registrant's F-1 registration statement (File No. 333-136825), as amended, initially filed with the Commission on August 22, 2006)</u>
2.3	<u>Form of Deposit Agreement among the Registrant, the depository and holders of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 of the Registrant's F-1 registration statement (File No. 333-136825), as amended, initially filed with the Commission on August 22, 2006)</u>
2.4	<u>Supplemental Agreement to Deposit Agreement, dated as of June 5, 2007, between the Registrant, the depository and holders and beneficial owners of American Depositary Receipts issued thereunder (incorporated by reference to Exhibit (a)(2) to the registration statement on Form F-6/A (File No. 333-136862) filed with the Commission on June 5, 2007)</u>
2.5	<u>Supplement and Amendment No. 2 to Deposit Agreement, dated as of August 5, 2011, between the Registrant, the depository and holders and beneficial owners of American Depositary Receipts issued thereunder (incorporated by reference to Exhibit (a)(3) to the registration statement on Form F-6 (File No. 333-176069), filed with the Commission on August 5, 2011)</u>
2.6	<u>Supplement and Amendment No. 3 to Deposit Agreement, dated as of April 25, 2012, between the Registrant, the depository and holders and beneficial owners of American Depositary Receipts issued thereunder (incorporated by reference to Exhibit (a)(4) of post-effective amendment No. 1 to the registration statement on Form F-6 (File No. 333-176069), filed with the Commission on April 25, 2012)</u>
2.7*	<u>Trust Deed, dated as of July 2, 2020, between the Registrant and DB Trustees (Hong Kong) Limited</u>
2.8*	<u>Agency Agreement, dated as of July 2, 2020, by and among the Registrant, DB Trustees (Hong Kong) Limited and Deutsche Bank AG, Hong Kong Branch</u>
2.9*	<u>Description of Securities</u>
4.1	<u>2006 Share Incentive Plan, as amended (incorporated by reference to Exhibit 4.1 of the Registrant's annual report on Form 20-F (File No. 001-32993) filed with the Securities and Exchange Commission on October 12, 2012)</u>
4.2	<u>Form of Indemnification Agreement with the Registrant's directors and officers (incorporated by reference to Exhibit 10.2 of the Registrant's F-1 registration statement (File No. 333-136825), as amended, initially filed with the Commission on August 22, 2006)</u>
4.3	<u>Form of Employment Agreement (incorporated by reference to Exhibit 10.3 of the Registrant's F-1 registration statement (File No. 333-136825), as amended, initially filed with the Commission on August 22, 2006)</u>

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- 4.4 [English Translation of Form of New Enrollment System Development Service Agreement between Beijing Decision and New Oriental schools \(incorporated by reference to Exhibit 99.4 of the Registrant's F-1 registration statement \(File No. 333-136825\), as amended, initially filed with the Commission on August 22, 2006\)](#)
- 4.5 [English Translation of Trademark License Agreement dated May 13, 2006 between the Registrant and New Oriental China \(incorporated by reference to Exhibit 99.6 of the Registrant's F-1 registration statement \(File No. 333-136825\), as amended, initially filed with the Commission on August 22, 2006\)](#)
- 4.6 [English Translation of Equity Pledge Agreement dated April 23, 2012 and its Supplemental Agreements dated September 19, 2014 and February 16, 2017 among New Oriental China, Beijing Century Friendship Education Investment Co., Ltd. and Beijing Hewstone Technology Co., Ltd. \(incorporated by reference to Exhibit 4.6 of the Registrant's annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2017\)](#)
- 4.7 [English Translation of Equity Pledge Agreement dated April 23, 2012 and its Supplemental Agreements dated September 19, 2014 and February 16, 2017 among New Oriental China, Beijing Century Friendship Education Investment Co., Ltd. and Beijing Decision Education & Consulting Co., Ltd. \(incorporated by reference to Exhibit 4.7 of the Registrant's annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2017\)](#)
- 4.8 [English Translation of Equity Pledge Agreement dated April 23, 2012 and its Supplemental Agreements dated September 19, 2014 and February 16, 2017 among New Oriental China, Beijing Century Friendship Education Investment Co., Ltd. and Beijing Pioneer Technology Co., Ltd. \(incorporated by reference to Exhibit 4.9 of the Registrant's annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2017\)](#)
- 4.9 [English Translation of Equity Pledge Agreement dated April 23, 2012 and its Supplemental Agreements dated September 19, 2014 and February 16, 2017 among New Oriental China, Beijing Century Friendship Education Investment Co., Ltd. and Beijing Smart Wood Software Technology Co., Ltd. \(incorporated by reference to Exhibit 4.10 of the Registrant's annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2017\)](#)
- 4.10 [Proxy Agreement and Power of Attorney, dated as of December 3, 2012, by and among Beijing Pioneer Technology Co., Ltd., Beijing Century Friendship Education Investment Co., Ltd. and New Oriental China \(incorporated by reference to Exhibit 4.34 of amendment no. 2 to the Registrant's annual report on Form 20-F/A \(File No. 001-32993\) filed with the Securities and Exchange Commission on February 22, 2013\)](#)
- 4.11 [Master Exclusive Service Agreement, dated as of September 19, 2014, its Amendment No. 1 dated as of January 28, 2016 and Amendment No. 2 dated as of February 16, 2017, by and between Beijing Pioneer and New Oriental China \(incorporated by reference to Exhibit 4.13 of the Registrant's annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2017\)](#)
- 4.12 [English Translation of Option Agreement dated February 16, 2017 among New Oriental China, Beijing Century Friendship Education Investment Co., Ltd. and Beijing Decision Education & Consulting Co., Ltd. \(incorporated by reference to Exhibit 4.15 of the Registrant's annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2017\)](#)
- 4.13 [2016 Share Incentive Plan \(incorporated by reference to Exhibit 4.15 of the Registrant's annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2016\)](#)
- 4.14 [Deed of Non-Competition Undertakings, dated as of August 28, 2018 issued by New Oriental Education & Technology Group Inc. in favor of Koolearn Technology Holding Limited \(incorporated by reference to Exhibit 4.14 of the Registrant's annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2018\)](#)

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- 4.15 [English Translation of Equity Pledge Agreement, dated as of May 10, 2018 among Beijing Dexin Dongfang Network Technology Co., Ltd., Beijing New Oriental Xuncheng Network Technology Co., Ltd. and its shareholders \(incorporated by reference to Exhibit 4.15 of the Registrant’s annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2018\).](#)
- 4.16 [English Translation of Exclusive Option Agreement, dated as of May 10, 2018 among Beijing Dexin Dongfang Network Technology Co., Ltd., Beijing New Oriental Xuncheng Network Technology Co., Ltd. and its shareholders \(incorporated by reference to Exhibit 4.16 of the Registrant’s annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2018\).](#)
- 4.17 [English Translation of Powers of Attorney, dated as of May 10, 2018 issued by Beijing New Oriental Xuncheng Network Technology Co., Ltd and its shareholders \(incorporated by reference to Exhibit 4.17 of the Registrant’s annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2018\).](#)
- 4.18 [English Translation of Exclusive Management Consultancy and Cooperation Agreement, dated as of May 10, 2018 among Beijing Dexin Dongfang Network Technology Co., Ltd., Beijing New Oriental Xuncheng Network Technology Co., Ltd. and its subsidiaries and shareholders \(incorporated by reference to Exhibit 4.18 of the Registrant’s annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2018\).](#)
- 4.19 [English Translation of Letters of Undertaking, dated as of May 10, 2018, issued by \(i\) Beijing Century Friendship Education Investment Co., Ltd. and its shareholders and \(ii\) each of the general partners of limited partnerships that are shareholders of Beijing New Oriental Xuncheng Network Technology Co., Ltd. to Koolearn Technology Holding Limited and Beijing Dexin Dongfang Network Technology Co., Ltd. \(incorporated by reference to Exhibit 4.19 of the Registrant’s annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 27, 2018\).](#)
- 4.20* [English Translation of Supplemental Agreement, dated as of October 10, 2019, among Beijing Dexin Dongfang Network Technology Co., Ltd., Beijing New Oriental Xuncheng Network Technology Co., Ltd. and its subsidiaries and shareholders, and Zhuhai Chongsheng Heli Network Technology Co., Ltd.](#)
- 4.21* [English Translation of Letter of Acceptance, dated as of October 10, 2019, issued by Beijing Dongfang Youbo Network Technology Co., Ltd.](#)
- 8.1* [Subsidiaries of the Registrant](#)
- 11.1 [Amended and Restated Code of Business Conduct and Ethics of the Registrant \(incorporated by reference to Exhibit 11.1 of the Registrant’s annual report on Form 20-F \(File No. 001-32993\) filed with the Securities and Exchange Commission on September 25, 2015\).](#)

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12.1*	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Tian Yuan Law Firm
15.2*	Consent of Deloitte Touche Tohmatsu Certified Public Accountants LLP
101.INS*	Inline XBRL Instance Document — the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File — the cover page XBRL tags are embedded within the Exhibit 101 Inline XBRL document set

* Filed herewith.

** Furnished herewith.

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

*INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018, 2019 AND 2020*

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NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.**

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of New Oriental Education & Technology Group Inc. and its subsidiaries (the “Company”) as of May 31, 2020, 2019 and 2018, the related consolidated statements of operations, comprehensive income, changes in equity and cash flows for each of the three years in the period ended May 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2020, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of May 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 16, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for equity method investments in the year ended May 31, 2019 due to the modified retrospective adoption of Accounting Standards Update (“ASU”) 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, as well as its manner in which it accounts for revenue from contracts with customers as a result of the modified retrospective adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended.

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for leases in the year ended May 31, 2020 due to the modified retrospective adoption of Accounting Standard Codification 842, Leases.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Fair value measurement of Level 3 assets — Refer to Notes 2 and 11 to the financial statements

Critical Audit Matter Description

The Company has assets whose fair values are based on complex proprietary models and unobservable inputs. These financial assets mainly include investments in debt and equity securities. Under accounting principles generally accepted in the United States of America, these financial assets are generally classified as Level 3 assets.

Unlike the fair value of other assets that are readily observable and therefore more easily independently corroborated, the valuation of financial assets classified as Level 3 is inherently subjective, and often involves the use of complex proprietary models and unobservable inputs.

We identified Level 3 assets as a critical audit matter because of the complex proprietary models and unobservable inputs management uses to estimate the fair value. This evaluation required a high degree of auditor judgment and an increased extent of effort, including the need to involve our valuation specialists who possess significant quantitative and modeling expertise, to audit and evaluate the appropriateness of these models and inputs.

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How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the complex proprietary models and unobservable inputs used by management to estimate the fair value of Level 3 assets included the following, among others:

- We tested the effectiveness of controls over management's valuation of Level 3 assets including those related to the management review control over the valuations.
- We assessed the consistency by which management has applied significant unobservable valuation assumptions.
- With the assistance of our internal valuation specialists, we evaluated the appropriateness of the valuation methodologies and techniques used in determining the fair value of Level 3 assets. Also, we evaluated the appropriateness of the judgements and estimates of the key inputs used in determining the fair value of the Level 3 assets including but not limited to the revenue growth rate and weighted average cost of capital.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China

September 16, 2020

We have served as the Company's auditor since 2006.

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

	As of May 31,		
	2018 US\$	2019 US\$	2020 US\$
ASSETS			
Current assets			
Cash and cash equivalents	983,319	1,414,171	915,057
Restricted cash	47	43	—
Term deposits	107,741	108,672	284,793
Short-term investments	1,623,763	1,668,689	2,318,280
Accounts receivable, net of allowance of US\$485, US\$503 and US\$557 as of May 31, 2018, 2019 and 2020, respectively	3,179	3,300	4,178
Inventory, net	40,175	29,046	31,324
Prepaid expenses and other current assets, net of allowance of US\$914, US\$248 and US\$149 as of May 31, 2018, 2019 and 2020, respectively	182,095	199,677	199,404
Amounts due from related parties, current	1,595	42,644	3,384
Total current assets	2,941,914	3,466,242	3,756,420
Restricted cash, non-current	3,399	4,013	4,367
Property and equipment, net	449,592	532,015	672,455
Land use rights, net	3,785	6,405	6,037
Amounts due from related parties, non-current	2,226	1,204	22,709
Long-term deposits	40,099	49,742	62,116
Long-term prepaid rents	191	442	—
Intangible assets, net	8,544	13,935	10,246
Goodwill, net	31,729	79,614	80,366
Long-term investments, net	433,333	404,704	431,101
Deferred tax assets, non-current, net	43,323	61,467	63,324
Right-of-use assets	—	—	1,425,466
Other non-current assets	19,577	26,776	22,278
Total assets	3,977,712	4,646,559	6,556,885
LIABILITIES, MEZZANINE EQUITY AND EQUITY			
Current liabilities			
Accounts payable (including accounts payable of the consolidated variable interest entities without recourse to the Company of US\$39,279, US\$33,646 and US\$31,658 as of May 31, 2018, 2019 and 2020, respectively)	39,889	34,057	33,147
Accrued expenses and other current liabilities (including accrued expenses and other current liabilities of the consolidated variable interest entities without recourse to the Company of US\$335,955, US\$518,937 and US\$581,576 as of May 31, 2018, 2019 and 2020, respectively)	373,537	576,521	634,619
Income taxes payable (including income taxes payable of the consolidated variable interest entities without recourse to the Company of US\$54,844, US\$79,067 and US\$87,331 as of May 31, 2018, 2019 and 2020, respectively)	67,233	94,071	101,385
Amounts due to related parties (including amounts due to related parties of the consolidated variable interest entities without recourse to the Company of US\$30, US\$472 and US\$1,590 as of May 31, 2018, 2019 and 2020, respectively)	30	472	1,590
Deferred revenue (including deferred revenue of the consolidated variable interest entities without recourse to the Company of US\$1,244,748, US\$1,268,318 and US\$1,317,645 as of May 31, 2018, 2019 and 2020, respectively)	1,270,195	1,301,103	1,324,384
Operating lease liabilities-current (including operating lease liabilities-current of the consolidated variable interest entities without recourse to the Company of nil, nil and US\$376,177 as of May 31, 2018, 2019 and 2020, respectively)	—	—	384,239
Total current liabilities	1,750,884	2,006,224	2,479,364
Deferred tax liabilities, non-current (including deferred tax liabilities, non-current of the consolidated variable interest entities without recourse to the Company of US\$13,782, US\$18,607 and US\$12,392 as of May 31, 2018, 2019 and 2020, respectively)	12,133	18,781	11,906
Long-term loan (including long-term loan of the consolidated variable interest entities without recourse to the Company of nil, nil and nil as of May 31, 2018, 2019 and 2020, respectively)	—	96,457	117,881
Operating lease liabilities (including operating lease liabilities of the consolidated variable interest entities without recourse to the Company of nil, nil and US\$ 1,054,149 as of May 31, 2018, 2019 and 2020, respectively)	—	—	1,077,923
Total liabilities	1,763,017	2,121,462	3,687,074

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

	As of May 31,		
	2018 US\$	2019 US\$	2020 US\$
Commitments and contingencies (Note 21)			
Mezzanine equity			
Redeemable non-controlling interests	206,624	—	—
Equity			
Common shares (US\$0.01 par value; 300,000,000 shares authorized as of May 31, 2018, 2019 and 2020; 158,379,387, 158,801,714 and 158,801,714 shares issued as of May 31, 2018, 2019 and 2020; 158,319,910, 157,849,714 and 158,540,080 shares outstanding as of May 31, 2018, 2019 and 2020 respectively)	1,584	1,588	1,588
Treasury stock	(1)	(10)	(3)
Additional paid-in capital	129,059	428,959	456,088
Statutory reserves	263,518	305,529	380,078
Retained earnings	1,352,543	1,647,627	1,986,411
Accumulated other comprehensive income (loss)	244,886	(23,007)	(90,867)
Total New Oriental Education & Technology Group Inc. shareholders' equity	<u>1,991,589</u>	<u>2,360,686</u>	<u>2,733,295</u>
Non-controlling interests	16,482	164,411	136,516
Total equity	<u>2,008,071</u>	<u>2,525,097</u>	<u>2,869,811</u>
Total liabilities, mezzanine equity and equity	<u>3,977,712</u>	<u>4,646,559</u>	<u>6,556,885</u>

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

CONSOLIDATED STATEMENTS OF OPERATIONS
(All amounts in thousands, except for share and per share data, or otherwise noted)

	For the years ended May 31,		
	2018 US\$	2019 US\$	2020 US\$
Net revenues			
Educational programs and services	2,165,152	2,785,254	3,230,378
Books and other services	282,278	311,237	348,304
Total net revenues	2,447,430	3,096,491	3,578,682
Operating cost and expenses			
Cost of revenues	(1,065,740)	(1,376,269)	(1,588,899)
Selling and marketing	(324,249)	(384,287)	(445,259)
General and administrative	(794,482)	(1,034,028)	(1,145,521)
Total operating cost and expenses	(2,184,471)	(2,794,584)	(3,179,679)
Gain on disposal of a subsidiary	—	3,627	—
Operating income	262,959	305,534	399,003
Other income, net			
Interest income	84,838	97,530	116,117
Interest expense	—	(1,615)	(4,627)
Realized gain from long-term investments	7,366	26,379	407
Impairment loss from long-term investments	(980)	(5,919)	(31,750)
Loss from fair value change of long-term investments	—	(104,636)	(18,451)
Miscellaneous income (loss), net	2,841	(1,424)	27,137
Income before income taxes and loss from equity method investments	357,024	315,849	487,836
Provision for income taxes:			
Current	(72,785)	(103,031)	(142,992)
Deferred	13,377	17,317	8,630
Provision for income taxes	(59,408)	(85,714)	(134,362)
(Loss) gain from equity method investments	(379)	(2,289)	1,385
Net income	297,237	227,846	354,859
Less: Net income (loss) attributable to non-controlling interests	1,107	(10,219)	(58,474)
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders	296,130	238,065	413,333
Net income per common share (Note 19)			
- Basic	1.87	1.50	2.61
- Diluted	1.87	1.50	2.59
Weighted average shares used in calculating basic and diluted net income per common share			
- Basic	158,168,794	158,293,890	158,429,576
- Diluted	158,556,500	159,039,345	159,536,890

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except share and per share data, or otherwise noted)

	For the years ended May 31,		
	2018 US\$	2019 US\$	2020 US\$
Net income	297,237	227,846	354,859
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustment	79,293	(190,358)	(67,529)
Unrealized gain (loss) on available-for-sale investments, net of tax effect of US\$8,825, US\$3,463 and US\$60 for the years ended May 31, 2018, 2019 and 2020, respectively	129,545	19,483	(748)
Other comprehensive income (loss), net of tax	<u>208,838</u>	<u>(170,875)</u>	<u>(68,277)</u>
Comprehensive income	506,075	56,971	286,582
Comprehensive income (loss) attributable to non-controlling interests	4,220	(11,130)	(58,891)
Comprehensive income attributable to New Oriental Education & Technology Group Inc.'s shareholders	<u>501,855</u>	<u>68,101</u>	<u>345,473</u>

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

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(All amounts in thousands, except for share data)

	Common shares		Additional paid-in capital US\$	Treasury stock US\$	Accumulated other comprehensive income US\$	Statutory reserves US\$	Retained earnings US\$	Total New Oriental Education & Technology Group Inc. shareholders' equity US\$	Non- controlling interests US\$	Total shareholders' equity US\$
	Number	US\$								
Balance as of June 1, 2017	157,687,444	1,584	249,126	(7)	39,161	219,975	1,171,109	1,680,948	39,130	1,720,078
Reissuance of treasury stock for the exercises of options	500	—	1	—	—	—	—	1	—	1
Reissuance of treasury stock for non-vested equity shares (“NES”)	631,966	—	(6)	6	—	—	—	—	—	—
Share-based compensation expenses	—	—	57,443	—	—	—	—	57,443	—	57,443
Transfer to statutory reserves	—	—	—	—	—	43,543	(43,543)	—	—	—
Dividend declared (a)	—	—	—	—	—	—	(71,153)	(71,153)	(231)	(71,384)
Net income	—	—	—	—	—	—	296,130	296,130	1,107	297,237
Foreign currency translation adjustment	—	—	—	—	76,344	—	—	76,344	2,949	79,293
Unrealized gain on available-for-sale investments, net of tax effect of US\$8,825	—	—	—	—	129,381	—	—	129,381	164	129,545
Impact from reclassification of non- controlling interests and new non-controlling interests recognized in acquisitions	—	—	(113,784)	—	—	—	—	(113,784)	2,015	(111,769)
Capital reduction of non- controlling interests	—	—	(63,721)	—	—	—	—	(63,721)	(28,652)	(92,373)
Balance as of May 31, 2018	<u>158,319,910</u>	<u>1,584</u>	<u>129,059</u>	<u>(1)</u>	<u>244,886</u>	<u>263,518</u>	<u>1,352,543</u>	<u>1,991,589</u>	<u>16,482</u>	<u>2,008,071</u>

(a) On July 25, 2017, the Company declared a special cash dividend in the amount of US\$0.45 per American Depositary Shares (the “ADS”). The aggregate amount of cash dividend paid was US\$71,153, which was funded by retained earnings. The dividend was fully paid on October 6, 2017 to shareholders of record at the close of business on September 1, 2017.

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED
(All amounts in thousands, except for share data)

	Common shares		Additional paid-in capital US\$	Treasury stock US\$	Accumulated other comprehensive income (loss) US\$	Statutory reserves US\$	Retained earnings US\$	Total New Oriental Education & Technology Group Inc. shareholders' equity US\$	Non-controlling interests US\$	Total shareholders' equity US\$
	Number	US\$								
Balance as of May 31, 2018	158,319,910	1,584	129,059	(1)	244,886	263,518	1,352,543	1,991,589	16,482	2,008,071
Issuance of treasury stock and common shares for NES	481,804	4	(5)	1	—	—	—	—	—	—
Shares repurchase	(952,000)	—	(55,952)	(10)	—	—	—	(55,962)	—	(55,962)
Share-based compensation expenses	—	—	71,336	—	—	—	—	71,336	—	71,336
Transfer to statutory reserves	—	—	—	—	—	42,011	(42,011)	—	—	—
Net income	—	—	—	—	—	—	238,065	238,065	(10,219)	227,846
Foreign currency translation adjustment	—	—	—	—	(188,982)	—	—	(188,982)	(1,376)	(190,358)
Unrealized gain on available-for-sale investments, net of tax effect of US\$3,463	—	—	—	—	19,018	—	—	19,018	465	19,483
Capital contribution from non-controlling interests	—	—	15,181	—	—	—	—	15,181	5,317	20,498
Change in non-controlling interests resulting from the initial public offering (the "IPO") of Koolearn Technology Holding Limited ("Koolearn Holding"), net of issuance cost	—	—	139,211	—	—	—	—	139,211	94,136	233,347
Reclassification of redeemable non-controlling interests	—	—	145,690	—	—	—	—	145,690	60,934	206,624
Purchase of non-controlling interests	—	—	(15,190)	—	—	—	—	(15,190)	(1,696)	(16,886)
Non-controlling interests arising from acquisitions	—	—	—	—	—	—	—	—	288	288
Disposal of a subsidiary	—	—	(371)	—	—	—	—	(371)	80	(291)
Cumulative-effect adjustment upon adoption of ASU 2016-01	—	—	—	—	(97,929)	—	97,929	—	—	—
Cumulative-effect adjustment upon adoption of ASC Topic 606	—	—	—	—	—	—	1,101	1,101	—	1,101
Balance as of May 31, 2019	<u>157,849,714</u>	<u>1,588</u>	<u>428,959</u>	<u>(10)</u>	<u>(23,007)</u>	<u>305,529</u>	<u>1,647,627</u>	<u>2,360,686</u>	<u>164,411</u>	<u>2,525,097</u>

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED
(All amounts in thousands, except for share data)

	Common shares		Additional paid-in capital US\$	Treasury stock US\$	Accumulated other comprehensive loss US\$	Statutory reserves US\$	Retained earnings US\$	Total New Oriental Education & Technology Group Inc. shareholders' equity US\$	Non- controlling interests US\$	Total shareholders' equity US\$
	Number	US\$								
Balance as of May 31, 2019	157,849,714	1,588	428,959	(10)	(23,007)	305,529	1,647,627	2,360,686	164,411	2,525,097
Issuance of treasury stock and common shares for NES	690,366	—	(7)	7	—	—	—	—	—	—
Share-based compensation expenses	—	—	41,326	—	—	—	—	41,326	20,731	62,057
Exercise of share options in Koolearn Holding	—	—	—	—	—	—	—	—	3,629	3,629
Transfer to statutory reserves	—	—	—	—	—	74,549	(74,549)	—	—	—
Net income	—	—	—	—	—	—	413,333	413,333	(58,474)	354,859
Foreign currency translation adjustment	—	—	—	—	(67,112)	—	—	(67,112)	(417)	(67,529)
Unrealized gain on available-for-sale investments, net of tax effect of US\$60	—	—	—	—	(748)	—	—	(748)	—	(748)
Purchase of non-controlling interests	—	—	(20,045)	—	—	—	—	(20,045)	6,675	(13,370)
Share option gain	—	—	5,752	—	—	—	—	5,752	—	5,752
Capital contribution from non- controlling interests	—	—	103	—	—	—	—	103	(39)	64
Balance as of May 31, 2020	<u>158,540,080</u>	<u>1,588</u>	<u>456,088</u>	<u>(3)</u>	<u>(90,867)</u>	<u>380,078</u>	<u>1,986,411</u>	<u>2,733,295</u>	<u>136,516</u>	<u>2,869,811</u>

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

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All amounts in thousands)

	For the years ended May 31,		
	2018 US\$	2019 US\$	2020 US\$
Cash flows from operating activities			
Net income	297,237	227,846	354,859
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of property and equipment	77,081	110,042	146,310
Amortization of intangible assets	1,839	3,699	4,530
Amortization of land use rights	110	263	162
Loss on disposal of property and equipment	2,032	10,685	4,866
Gain on disposal of a subsidiary	—	(3,627)	—
Goodwill impairment	—	5,245	—
Impairment loss from long-term investments	980	5,919	31,750
Realized gain from long-term investments	(7,366)	(26,379)	(407)
Loss from fair value change of long-term investments	—	104,636	18,451
Share-based compensation expenses	57,443	71,336	62,057
Allowance for doubtful accounts	576	146	329
Loss (gain) from equity method investments	379	2,289	(1,385)
Deferred income taxes	(14,821)	(17,273)	(8,566)
Changes in operating assets and liabilities			
Accounts receivable	767	(509)	(1,422)
Inventory	(6,316)	6,032	(3,278)
Prepaid expenses and other current assets	(51,738)	(23,624)	(40,713)
Amounts due from related parties	4,250	(3,022)	14,106
Long-term deposits	(14,300)	(12,622)	(14,266)
Long-term prepaid rents	1,185	858	658
Operating lease rights-of-use assets	—	—	(170,871)
Accounts payable	13,728	(2,747)	82
Accrued expenses and other current liabilities	68,226	(18,321)	63,667
Income taxes payable	15,473	27,210	56,372
Amounts due to related parties	(21)	670	1,152
Deferred revenue	334,383	336,896	61,930
Operating lease liabilities	—	—	224,082
Net cash provided by operating activities	781,127	805,648	804,455
Cash flows from investing activities			
Purchase of term deposits	(117,166)	(104,178)	(249,048)
Proceeds from maturity of term deposits	212,690	95,402	69,740
Payments for short-term investments	(1,250,239)	(3,595,634)	(2,964,402)
Proceeds from maturity of short-term investments	1,025,721	3,432,981	2,248,486
Purchase of property and equipment	(214,255)	(269,140)	(309,548)
Proceeds from disposal of property and equipment	9,812	17,238	24,477
Payments for long-term investments	(67,350)	(128,970)	(92,087)
Proceeds from disposal of long-term investments	—	46,956	8,480
Business acquisitions, net of cash acquired of US\$12,210, US\$2,697 and US\$1,419 for the years ended May 31, 2018, 2019 and 2020, respectively (Note 3)	(999)	(36,367)	1,073
Purchase of land use rights	(5,357)	(7,738)	—
Loans provided to related parties	—	(61,155)	(7,128)
Repayment of loan provided to related parties	—	45,682	712
Disposal of subsidiaries, net of cash disposed of nil, US\$12,050 and US\$665 for the years ended May 31, 2018, 2019 and 2020, respectively	—	(9,789)	12,875
Net cash used in investing activities	(407,143)	(574,712)	(1,256,370)

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(All amounts in thousands)

	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Cash flows from financing activities			
Proceeds from issuances of common shares upon exercise of share options	1	—	3,629
Proceeds from issuance of ordinary shares relating to the IPO of Koolearn Holding	—	233,347	—
Cash paid for employees' individual income taxes on withheld shares from exercise of NES	(7,241)	(12,085)	(9,853)
Contingent consideration payments made after a business combination	—	—	(18,332)
Cash paid for dividend	(71,153)	—	—
Proceeds from long-term loan	—	96,457	20,000
Cash paid for shares repurchase	—	(55,962)	—
Capital contribution from non-controlling interests	93,159	20,498	64
Purchase of non-controlling interests	(89,647)	(15,606)	(13,370)
Net cash (used in) provided by financing activities	<u>(74,881)</u>	<u>266,649</u>	<u>(17,862)</u>
Effects of exchange rate changes	42,992	(66,123)	(29,026)
Net change in cash, cash equivalents and restricted cash	342,095	431,462	(498,803)
Cash, cash equivalents and restricted cash at beginning of year	644,670	986,765	1,418,227
Cash, cash equivalents and restricted cash at end of year	<u>986,765</u>	<u>1,418,227</u>	<u>919,424</u>
Supplement disclosure of cash flow information:			
Income taxes paid	57,005	75,346	135,678
Interests paid	—	833	4,665
Non-cash investing and financing activities			
Payable for investments and acquisitions	5,420	21,962	3,917
Payable for purchase of property and equipment	45,590	44,445	65,335
Receivable from the disposal of a subsidiary	—	13,760	—

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

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018, 2019 AND 2020
(All amounts in thousands, except for share and per share data, or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

New Oriental Education & Technology Group Inc. (the “Company”) was incorporated in the Cayman Islands. The Company, its consolidated subsidiaries and its variable interest entities (the “VIEs”) and the VIEs’ subsidiaries and schools are collectively referred to as the “Group”.

The Group provides educational services in the People’s Republic of China (the “PRC”) primarily under the “New Oriental” brand. The Group offers a wide range of educational programs, services and products, consisting primarily of K-12 after-school tutoring (“K-12 AST”), test preparation and other courses, primary and secondary school education, online education, content development and distribution, overseas study consulting services, pre-school education and study tour.

As of May 31, 2020, details of the Company’s major subsidiaries, its VIEs and the VIEs’ major subsidiaries and schools were as follows:

Name	Date of incorporation or acquisition	Place of incorporation (or establishment)/ operation	Legal ownership	Principal activity
Major subsidiaries of the Company:				
Beijing Decision Education & Consulting Company Limited (“Beijing Decision”)	April 20, 2005	PRC	100%	Educational technology and management services
Beijing Hewstone Technology Company Limited (“Beijing Hewstone”)	April 20, 2005	PRC	100%	Educational software development
Elite Concept Holdings Limited (“Elite Concept”)	December 3, 2007	Hong Kong	100%	Educational consulting
Winner Park Limited (“Winner Park”)	December 9, 2008	Hong Kong	100%	Educational consulting
Smart Shine International Limited (“Smart Shine”)	December 9, 2008	Hong Kong	100%	Educational consulting
Beijing Pioneer Technology Company Limited (“Beijing Pioneer”)	January 8, 2009	PRC	100%	Educational software development
Beijing Smart Wood Software Technology Company Limited (“Beijing Smart Wood”)	December 21, 2011	PRC	100%	Educational consulting and software development
Koolearn Holding	February 7, 2018	Cayman Islands	53.22%	Online education service
New Oriental Xuncheng Technology (HK) Limited (“Koolearn Tech”)	March 2, 2018	Hong Kong	53.22%	Online education service
Beijing Dexin Dongfang Network Technology Co., Ltd. (“Dexin Dongfang”)	March 21, 2018	PRC	53.22%	Educational consulting and software development
Zhuhai Chongsheng Heli Network Technology Co., Ltd (“Zhuhai Chongsheng”)	July 23, 2019	PRC	53.22%	Educational consulting and software development

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<u>Name</u>	<u>Date of incorporation or acquisition</u>	<u>Place of incorporation (or establishment)/ operation</u>	<u>Legal ownership</u>	<u>Principal activity</u>
VIEs of the Company:				
New Oriental Education & Technology Group Co., Ltd (“New Oriental China”)	August 2, 2001	PRC	N/A	Education consulting, software development and distributions and other services
Beijing New Oriental Xuncheng Network Technology Co., Ltd. (“Xuncheng”)	March 11, 2005	PRC	N/A	Online education service
Major subsidiaries and schools of the VIEs:				
Beijing Haidian District Privately-Funded New Oriental School (“Beijing Haidian School”)	October 5, 1993	PRC	N/A	Language training and test preparation
Beijing New Oriental Yangzhou Foreign Language School	June 6, 2002	PRC	N/A	Primary and secondary school education
Wuhan New Oriental Training School	April 28, 2002	PRC	N/A	Language training and test preparation

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<u>Name</u>	<u>Date of incorporation or acquisition</u>	<u>Place of incorporation (or establishment)/ operation</u>	<u>Legal ownership</u>	<u>Principal activity</u>
Xi'an Yanta District New Oriental School	November 26, 2002	PRC	N/A	Language training and test preparation
Nanjing Gulou New Oriental Advanced Study School	November 28, 2002	PRC	N/A	Language training and test preparation
Beijing New Oriental Dogwood Cultural Communications Co., Ltd. ("Dogwood")	May 16, 2003	PRC	N/A	Content development and distribution
Beijing New Oriental Vision Overseas Consultancy Co., Ltd.	February 19, 2004	PRC	N/A	Oversea study consulting service
Hangzhou New Oriental Advanced Study School	July 21, 2005	PRC	N/A	Language training and test preparation
Beijing Chaoyang District Kindergarten of Stars	November 20, 2007	PRC	N/A	Pre-school education

The VIE arrangements

The PRC laws and regulations currently require any foreign entity that invests in the education business in China to be an educational institution with relevant experience in providing educational services outside of China. The Company's offshore holding companies are not educational institutions and do not provide educational services outside of China. In addition, in the PRC, foreign ownership of high schools for students in grades ten to twelve is restricted and foreign ownership of primary and middle schools for students in grades one to nine is prohibited. Accordingly, the Company's offshore holding companies are not allowed to directly own and operate schools in China. The Company conducts substantially all of its education business in China through contractual arrangements with its VIEs, New Oriental China and its subsidiaries and schools and Xuncheng and its subsidiaries. Since the operations of New Oriental China and its subsidiaries and schools and Xuncheng and its subsidiaries are closely interrelated and almost indistinguishable from one another, the risks and rewards associated with their operations are substantially the same. In addition, the Company consolidates New Oriental China, its subsidiaries and schools, Xuncheng and its subsidiaries as disclosed. Therefore, the Company aggregates the disclosures related to New Oriental China, its subsidiaries and schools, and Xuncheng and its subsidiaries as the VIEs in the Company's consolidated financial statements. The VIEs hold the requisite licenses and permits necessary to conduct the Company's education business. In addition, the VIEs hold leases and other assets necessary to operate the Company's schools and learning centers, employ teachers and generate substantially all of the Company's revenues.

VIE Arrangements between New Oriental China and the Company's PRC subsidiaries

The Company and its wholly owned subsidiaries in China (the "WFOEs") have entered into the following contractual arrangements with New Oriental China, New Oriental China's subsidiaries and schools and New Oriental China's shareholders that enable the Company to (1) have power to direct the activities that most significantly affects the economic performance of the VIEs, (2) receive substantially all of the economic benefits of the VIEs that could be significant to the VIEs and (3) have an exclusive option to purchase all or part of the equity interests in New Oriental China, when and to the extent permitted by PRC law, or request the existing shareholder of New Oriental China to transfer all or part of the equity interest in New Oriental China to another PRC person or entity designated by us at any time in the Company's discretion. Accordingly, the Company is considered the primary beneficiary of the VIE and has consolidated the VIE's financial results of operations, assets and liabilities in the Company's consolidated financial statements. In making the conclusion that the Company is the primary beneficiary of the VIE, the Company believes the Company's rights under the terms of the exclusive option agreement provide it with the substantive kick-out rights. More specifically, the Company believes the terms of the exclusive option agreement are valid, binding and enforceable under the PRC laws and regulations currently in effect. The Company also believes that the minimum amount of consideration permitted by the applicable PRC law to exercise the option does not represent a financial barrier or disincentive for the Company to currently exercise its rights under the exclusive option agreement.

A simple majority vote of the Company's board of directors is required to pass a resolution to exercise the Company's rights under the exclusive option agreement, for which Mr. Michael Minhong Yu ("Mr. Yu")'s consent is not required. The Company's rights under the exclusive option agreement give the Company the power to control the shareholders of New Oriental China and thus the power to direct the activities that most significantly impact the schools' economic performance given that New Oriental China has the power to direct the activities of the schools via its sponsorship interest. In addition, the Company's rights under the power of attorney also reinforce the Company's abilities to direct the activities that most significantly impact the VIE's economic performance. The Company also believes that this ability to exercise control ensures that the VIE will continue to execute and renew service agreements and pay service fees to the Company. By charging service fees in whatever amounts the Company deems fit, and by ensuring that service agreements are executed and renewed indefinitely, the Company has the rights to receive substantially all of the economic benefits from the VIE.

Service agreements. There are four types of service agreements: (i) trademark license agreements, (ii) new enrollment system development service agreements, (iii) other operating service agreements, and (iv) sale of educational software agreements.

- (i) Trademark license agreements. Pursuant to the trademark license agreement dated May 13, 2006 between the Company as the licensor and New Oriental China as the licensee, the Company has licensed the trademarks to New Oriental China for its use in China. The Company has also allowed New Oriental China to enter into sub-license agreements with its subsidiaries and schools pursuant to which each of the subsidiaries and schools may use the trademarks in China by paying license fees. This license is valid from May 14, 2006 to December 31, 2050, subject to the renewal every ten years upon the expiration of the trademark registration.
- (ii) New enrollment system development service agreements. Beijing Decision has entered into new enrollment system development service agreements with the schools of New Oriental China, under which Beijing Decision agreed to provide new enrollment system development and regular maintenance services to those schools of New Oriental China for a fee equal to the applicable fee rate multiplied by the number of new student enrollments. These agreements can be renewed by both parties to the agreements.
- (iii) Other operating service agreements. Pursuant to operating service agreements between certain WFOEs and the subsidiaries or schools of New Oriental China, the WFOEs have agreed to provide certain operating services to the subsidiaries or schools of New Oriental China for fees that are calculated based on a percentage, ranging from 2.0% to 6.0%, of respective revenues of each of the subsidiaries and schools. A majority of these agreements provide unlimited two-year or five-year automatic renewal without consent of the WFOEs. The remaining agreements can be renewed by both parties to the agreements.

- (iv) Sale of educational software agreements. Ten WFOEs, namely Beijing Hewstone, Beijing Pioneer, Beijing Smart Wood, Beijing Joy Tend Technology Company Limited (“Beijing Joy Trend”), Beijing magnificence Technology Company Limited (“Beijing Magnificence”), Beijing Top Technology Company Limited (“Beijing Top”), Beijing Shenghe Technology Company Ltd. (“Beijing Shenghe”), Beijing Right Time Technology Company Limited (“Beijing Right Time”), Beijing Sincerity Technology Company Limited and Beijing Jinghong Software Technology Company Ltd. (“Beijing Jinghong”), entered into agreements whereby the WFOEs sell various self-developed educational software to the subsidiaries or schools of New Oriental China. Except for four agreements that are silent on renewal, these agreements provide unlimited two-year automatic renewal terms, and the subsidiaries and schools of New Oriental China cannot terminate the agreements without the consent of the WFOEs in China.

Master exclusive service agreement. On September 19, 2014, Beijing Pioneer entered into a master exclusive service agreement with New Oriental China to enable the Company’s wholly owned subsidiaries in China to receive substantially all of the economic benefits of New Oriental China and its subsidiaries and schools. Under the master exclusive service agreement, Beijing Pioneer has the exclusive rights to provide or designate any entities affiliated with it to provide New Oriental China and its subsidiaries and schools the technical and business support services, including new enrollment system development service, sale of educational software and other operating services. Each service provider specified in the service agreement (iv) has the rights to determine the fees associated with the services it provides based on the technical difficulty and complexity of the services and the actual labor costs it incurs for providing the services during the relevant period. The term of this agreement is ten years and will be automatically extended upon expiration. Beijing Pioneer may terminate the agreement at any time with a 30-day prior written notice to New Oriental China, whereas none of New Oriental China and its subsidiaries and schools can terminate this agreement. The various existing service agreements mentioned in service agreements (i)~(iv) will remain effective after the inclusion of the master exclusive service agreement; however, if they have any conflict with the terms and conditions of the master exclusive service agreement, the master exclusive service agreement will prevail. The master exclusive service agreement was effective on September 19, 2014.

Equity pledge agreements. Pursuant to the equity pledge agreements dated May 25, 2006 among New Oriental China, all of the shareholders of New Oriental China, Beijing Hewstone and Beijing Decision, each shareholder of New Oriental China agreed to pledge his or its equity interest in New Oriental China to Beijing Hewstone and Beijing Decision to secure the performance of the VIEs’ obligations under the existing service agreements and any such agreements to be entered into in the future. The shareholders of New Oriental China agreed not to transfer, sell, pledge, dispose of or otherwise create any encumbrance on their equity interests in New Oriental China without the prior written consent of Beijing Hewstone and Beijing Decision.

In January 2012, ten former shareholders of New Oriental China completed the transfer, for no consideration, of all of their equity interests in New Oriental China to Beijing Century Friendship Education Investment Co., Ltd. (“Century Friendship”), a PRC domestic enterprise controlled by the Company’s founder and chairman, Mr. Yu. Prior to the transfer, Century Friendship had held 53% of the equity interests in New Oriental China while the ten former shareholders of New Oriental China held the remaining equity interests. In connection to the transfer, five new equity pledge agreements dated April 23, 2012 were entered into among New Oriental China, Century Friendship and five WFOEs, whereby Century Friendship has agreed to pledge all of its equity interests in New Oriental China to the WFOEs to secure the VIEs’ performance of their obligations under the trademark license agreements, new enrollment system development service agreements, other operating service agreements and sale of educational software agreements. Century Friendship has agreed not to transfer, sell, pledge, dispose of or otherwise create any encumbrance on its equity interests in New Oriental China without the prior written consents of the WFOEs. The terms of the April 2012 equity pledge agreements are substantially the same as the 2006 equity pledge agreements.

In February 2017, as part of efforts to streamline the corporate structure, the Group removed Shanghai Smart Words Software Technology Co., Ltd. (“Shanghai Smart Words”) as a party to the contractual arrangements with New Oriental China and its subsidiaries and schools and the shareholders. The rights and obligations of Shanghai Smart Words under these contractual arrangements have been assumed by Beijing Decision. The April 2012 equity pledge agreements have been amended to reflect the foregoing change while the terms of these agreements remain unchanged. The equity pledges of Century Friendship under the amended agreements have been registered with the Haidian District, Beijing branch of the State Administration of Market Regulation (the “SAMR”).

Exclusive option agreements. Pursuant to the exclusive option agreements entered into on various dates, as amended on May 25, 2006, among the Company, New Oriental China and its shareholders, the shareholders of New Oriental China are obligated to sell to the Company, and the Company has an exclusive, irrevocable and unconditional rights to purchase, or cause the shareholders of New Oriental China to sell to the Company’s designated party, in the Company’s sole discretion, part or all of the shareholders’ equity interests in New Oriental China when and to the extent that applicable PRC law permits the Company to own part or all of such equity interests in New Oriental China. In addition, pursuant to the exclusive option agreements, the Company has an exclusive, irrevocable and unconditional right to request any existing shareholders of New Oriental China to transfer all or part of the equity interest in New Oriental China held by such shareholder to another PRC person or entity designated by the Company at any time in the discretion. The price to be paid by the Company or a PRC person or entity designated by the WFOEs will be the minimum amount of consideration permitted by applicable PRC law at the time when such share transfer occurs. As a result of the ten former shareholders of New Oriental China transferring all of their equity interests in New Oriental China to Century Friendship in January 2012, Century Friendship executed a new option agreement with Shanghai Smart Words and New Oriental China on April 23, 2012. The terms of this new option agreement are substantially the same as the 2006 exclusive option agreements.

On February 16, 2017, Beijing Decision entered into a new option agreement with Century Friendship and New Oriental China, replacing the previous option agreement dated April 23, 2012. Pursuant to the current option agreement, Century Friendship is obligated to sell to Beijing Decision, and Beijing Decision has an exclusive, irrevocable and unconditional rights to purchase from Century Friendship, in its sole discretion, part or 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, which is one of the Company's wholly owned subsidiaries in China, and New Oriental China, whereby Century Friendship irrevocably appoints and constitutes Beijing Pioneer as its attorney-in-fact to exercise on Century Friendship's behalf any and all rights that Century Friendship has in respect of its equity interests in New Oriental China. This proxy agreement and power of attorney became effective on December 3, 2012 and replaces the powers of attorney executed by Century Friendship on April 23, 2012. The proxy agreement and power of attorney will remain effective as long as New Oriental China exists. Century Friendship does not have the rights to terminate the proxy agreement and power of attorney or revoke the appointment of the attorney-in-fact without the prior written consent of Beijing Pioneer.

VIE Arrangements between Dexin Dongfang and Xuncheng

On May 10, 2018, Dexin Dongfang, a wholly-owned subsidiary of Koolearn Holding, entered into certain contractual arrangements (the "Contractual Arrangements") with Xuncheng and the shareholders of Xuncheng, which enable Koolearn Holding to obtain control over Xuncheng, Beijing Kuxue Huisi Network Technology Co., Ltd. ("Kuxue Huisi") and Beijing Dongfangyoubo Network Technology Co.,Ltd. ("Dongfang Youbo") (together the "Xuncheng VIE entities").

The Contractual Arrangements include an Exclusive Management Consultancy and Business Cooperation Agreement, an Exclusive Call Option Agreement, an Equity Pledge Agreement, a Powers of Attorney and Dispute resolution and Letters of undertaking. The terms of these contractual agreements between Dexin Dongfang and Xuncheng are substantially similar to those agreements of New Oriental China described in the preceding paragraphs.

Through these Contractual Agreements, Dexin Dongfang has the ability to (1) expose, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over Xuncheng VIE entities; (2) exercise equity holders' controlling voting rights of Xuncheng VIE entities; (3) receive substantially all of the economic benefits of Xuncheng VIE entities in consideration for the business support, technical and consulting services provided by Dexin Dongfang; (4) obtain an irrevocable and exclusive right to purchase all or part of equity interests in Xuncheng VIE entities from the respective equity holders at nil consideration or a minimum purchase price permitted under the PRC Laws; (5) obtain a pledge over the entire equity interest of Xuncheng from their equity holders as collateral security for all of Xuncheng VIE entities' payments.

On October 10, 2019, Dexin Dongfang and Zhuhai Chongsheng, a wholly-owned PRC subsidiary of Koolearn Holding entered into a supplemental agreement with Xuncheng and its subsidiaries and all of its shareholders. Pursuant to the supplemental agreement, Zhuhai Chongsheng joined as a party to the contractual agreements between Dexin Dongfang, Xuncheng and its subsidiaries and shareholders and assumed the same rights and shared the same obligations of Dexin Dongfang under the contractual agreements.

On October 10, 2019, Dongfang Youbo, a subsidiary of Xuncheng, executed a letter of acceptance whereby it assumed the same rights and obligations as Xuncheng's subsidiary under the exclusive management consultancy and business cooperation agreement.

Risks in relation to the VIE structure

The Company believes that the contractual arrangements with its VIEs and their respective shareholders are in compliance with the PRC laws and regulations and are legally enforceable. However, uncertainties in the PRC legal system could limit the Company's ability to enforce the contractual arrangements. If the legal structure and contractual arrangements were found to be in violation of the PRC laws and regulations, the PRC government could:

- revoke the business and operating licenses of the Company's PRC subsidiaries and the VIEs;
- discontinue or restrict the operations of any related-party transactions between the Company's PRC subsidiaries and the VIEs;
- limit the Group's business expansion in China by way of entering into contractual arrangements;
- impose fines or other requirements with which the Company's PRC subsidiaries and the VIEs may not be able to comply;
- require the Company or the Company's PRC subsidiaries or the VIEs to restructure the relevant ownership structure or operations; or
- restrict or prohibit the Company's use of the proceeds of the additional public offering to finance the Group's business and operations in China.

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The Company's ability to conduct its education business may be negatively affected if the PRC government were to carry out of any the aforementioned actions. As a result, the Company may not be able to consolidate its VIEs in its consolidated financial statements as it may lose the ability to exert effective control over the VIEs and their respective shareholders and it may lose the ability to receive economic benefits from the VIEs. The Company, however, does not believe such actions would result in the liquidation or dissolution of the Company, its PRC subsidiaries or the VIEs.

Mr. Yu is the controlling shareholder of Century Friendship, which owns all of the equity interests in New Oriental China, which in turn owns all of the equity interests in Xuncheng, and Mr. Yu is also a beneficial owner of the Company. The interests of Mr. Yu as the beneficial owner of the VIEs may differ from the interests of the Company as a whole, since Mr. Yu is one of the beneficial shareholders of the Company, holding 12.46% of the total common shares outstanding as of May 31, 2020. The Company cannot assure that when conflicts of interest arise, Mr. Yu will act in the best interests of the Company or that conflicts of interests will be resolved in the Company's favor. Currently, the Company does not have existing arrangements to address potential conflicts of interest Mr. Yu may encounter in his capacity as a beneficial owner and director of the VIEs, on the one hand, and as a beneficial owner and director of the Company, on the other hand. The Company believes Mr. Yu will not act contrary to any of the contractual arrangements and the exclusive option agreement provides the Company with a mechanism to remove Mr. Yu as a beneficial shareholder of the VIEs should he act to the detriment of the Company. The Company relies on Mr. Yu, as a director and the chairman of the Company, to fulfill his fiduciary duties and abide by laws of the PRC and Cayman Islands and act in the best interest of the Company. If the Company cannot resolve any conflicts of interest or disputes between the Company and Mr. Yu, the Company would have to rely on legal proceedings, which could result in disruption of its business, and there is substantial uncertainty as to the outcome of any such legal proceedings.

In addition, the current shareholders of New Oriental China and Xuncheng are also beneficial owners of the Company and therefore, have no current interest in seeking to act contrary to the contractual arrangements. However, to further protect the investors' interest from any risk that the shareholders of New Oriental China may act contrary to the contractual arrangements, the Company, through Beijing Pioneer, entered into an irrevocable power of attorney with Century Friendship on December 3, 2012, which replaces the powers of attorney executed by Century Friendship on April 23, 2012. Through the power of attorney, Century Friendship entrusted Beijing Pioneer as its proxy to exercise its rights as the shareholder of New Oriental China with respect to an aggregate of 100% of the equity interests in New Oriental China.

The following financial statement balances and amounts of the VIEs were included in the accompanying consolidated financial statements after the elimination of intercompany balances and transactions among the offshore companies, WFOEs and the VIEs in the Group:

	As of May 31		
	2018 US\$	2019 US\$	2020 US\$
Total current assets	2,081,374	2,179,752	2,385,315
Total non-current assets	750,316	957,650	2,463,751
Total assets	2,831,690	3,137,402	4,849,066
Total current liabilities	1,674,857	1,900,440	2,395,977
Total non-current liabilities	13,782	18,607	1,066,541
Total liabilities	1,688,639	1,919,047	3,462,518

	For the years ended May 31,		
	2018 US\$	2019 US\$	2020 US\$
Net revenues	2,417,203	3,056,537	3,453,555
Net income	479,190	575,614	575,210
Net cash provided by operating activities	711,591	536,631	675,015
Net cash used in investing activities	(429,265)	(450,569)	(780,310)
Net cash used in financing activities	(96,429)	(27,691)	(45,188)

The VIEs contributed an aggregate of 98.8%, 98.7% and 96.5% of the consolidated net revenues for the years ended May 31, 2018, 2019 and 2020, respectively. The Company's operations not conducted through contractual arrangements with the VIEs primarily consist of the lease of its commercial property. As of the years ended May 31, 2018, 2019 and 2020, the VIEs accounted for an aggregate of 71.2%, 67.5% and 74.0%, respectively, of the consolidated total assets, and 95.8%, 90.5% and 93.9%, respectively, of the consolidated total liabilities. The assets not associated with the VIEs were primarily consist of cash and cash equivalents, prepaid expenses, short-term investments and long-term investments.

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

Relevant PRC laws and regulations restrict the VIEs from transferring a portion of its net assets, equivalent to the balance of its statutory reserve and its share capital, to the Company in the form of loans and advances or cash dividends. Please refer to Note 26 for disclosure of restricted net assets.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, its VIEs and the VIEs’ subsidiaries and schools. The Company and its WFOEs have entered into contractual arrangements with the VIEs and its shareholders, which enable the Company to (1) have power to direct activities that most significantly affect the economic performance of the VIEs, and (2) receive the economic benefits of the VIEs that could be significant to the VIEs. Accordingly, the Company is considered the primary beneficiary of the VIEs and has consolidated the VIEs’ financial results of operations, assets and liabilities in the Company’s consolidated financial statements. All inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent liabilities at the balance sheet date, and revenue and expenses in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group’s consolidated financial statements include the purchase price allocation relating to business acquisitions, the valuation allowance for deferred tax assets, economic lives and impairment of property and equipment, impairment of goodwill, intangible assets, long-lived assets and long-term investments, fair value assessment of long-term investments, refund liability, discount rate for leases, fair value of underlying ordinary shares of Koolearn Holding before its IPO and mezzanine equity. Actual results could differ from those estimates.

Business combinations

Business combinations are recorded using the acquisition method of accounting. The purchase price of the acquisition is allocated to the tangible assets, liabilities, identifiable intangible assets acquired and non-controlling interest, if any, based on their estimated fair values as of the acquisition date. The excess of the purchase price over those fair values is recorded as goodwill. Acquisition-related expenses and restructuring costs are expensed as incurred.

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

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

Cash and cash equivalents

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

Restricted cash

Restricted cash represents Renminbi (“RMB”) deposit in bank accounts as deposits for establishing new subsidiaries and schools. Restricted cash is classified as either current or non-current based on when the funds will be released in accordance with the terms of the respective agreement.

Term deposits

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

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Short-term investments

The Group's short-term held-to-maturity investments are classified as short-term investments on the consolidated balance sheets based on their contractual maturity dates which are less than one year and are stated at their amortized costs.

The Group reviews its held-to-maturity investments for other-than-temporary impairment ("OTTI") based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating the potential impairment of its short-term investments. If the cost of an investment exceeds the investment's fair value, the Group considers, among other factors, general market conditions, expected future performance of the investees, the duration and the extent to which the fair value of the investment is less than the cost, and the Group's intent and ability to hold the investments. OTTI is recognized as a loss in the consolidated statements of operations.

Allowance for doubtful accounts

Accounts receivable represents amounts due from corporate customers of the Group's various subsidiaries and schools. The Group provides allowance for doubtful accounts based on historical collection experience and a review of the current status of accounts receivable and other receivable. Accounts receivable and other receivables are presented net of allowance for doubtful accounts.

Changes in the allowance for doubtful accounts were as follows:

	As of May 31,		
	2018 US\$	2019 US\$	2020 US\$
Beginning balance	1,180	1,399	751
Charge during the year	576	146	329
Written-off	(357)	(794)	(374)
Ending balance	<u>1,399</u>	<u>751</u>	<u>706</u>

Property and equipment, net

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

Buildings	20-50 years
Transportation equipment	10 years
Furniture and education equipment	5 years
Computer equipment and software	3 years
Leasehold improvements	Shorter of the lease term or estimated useful life

Property and equipment also consist of construction in progress as the Group constructs certain of its property and equipment. Construction in progress represents the costs incurred in connection with the construction of property and equipment. Costs classified as construction in progress include all costs of obtaining the asset and bringing it to the location and in the condition necessary for its intended use. Construction in progress is transferred to specific property and equipment and depreciation of these assets commences when the assets are ready for their intended use.

Land use rights, net

Land use rights are recorded at cost less accumulated amortization and amortized on a straight-line basis over the remaining term of the land certificate, from 38.5 years to 50 years.

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Intangible assets, net

Intangible assets are initially recorded at cost and amortized on a straight-line basis over the estimated economic useful lives. Intangible assets with an indefinite useful life is not amortized. The Group performs valuation of the intangible assets arising from business combination to determine the fair value to be assigned to each asset acquired. The acquired intangible assets are recognized and measured at fair value and are expensed or amortized using the straight-line approach over the estimated economic useful lives of the assets.

The estimated useful lives of intangible assets are as follows:

<u>Category</u>	<u>Estimated useful lives</u>
Trade mark	10 years
License	20 years
Student base	1.75 years
Favorable lease	8.67 years
Courseware	3 years

Impairment of long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the fair value of the assets. The Group did not record any impairment losses on long-lived assets during the years ended May 31, 2018, 2019 and 2020.

Goodwill, net

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. The Group's goodwill as of May 31, 2018, 2019 and 2020 relates to its acquisition of certain kindergartens and schools. In accordance with Accounting Standard Codification 350, Goodwill and Other Intangible Assets, the recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present.

Goodwill is tested for impairment at the reporting unit level on an annual basis (May 31 for the Group) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

On June 1, 2019, the Group early adopted Accounting Standards Update ("ASU") 2017-04, Intangibles-Goodwill and Other (Topic 350) for the annual goodwill impairment test performed in the fiscal year 2020. Topic 350 permits the Group to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test, which eliminated Step 2 from the goodwill impairment test on a prospective basis. The Group recognizes an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

The Group recorded nil, US\$5,245 and nil impairment losses during the years ended May 31, 2018, 2019 and 2020, respectively.

Long-term investments, net

The Group's long-term investments include equity securities without readily determinable fair values, equity securities with readily determinable fair values, equity method investments and available-for-sale investments.

(a) Equity securities

On June 1, 2018, the Group adopted ASU 2016-01 Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities and 2018-03 Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Group adopted this ASU using a modified retrospective method and reclassified unrealized losses of US\$97,929, net of tax on investment securities which were previously accounted for as available-for-sales investments, from accumulated other comprehensive loss to the opening balance of retained earnings. The adjustment related to the fair value measurement of equity securities which were previously classified as available-for-sales investments.

- Equity securities with readily determinable fair values

Prior to the adoption of ASU 2016-01, equity securities that have readily determinable fair values and were not accounted for using the equity method or those that result in consolidation of the investee were classified as available-for-sale investments, and were carried at the fair value with unrealized gains and losses recorded in accumulated other comprehensive income/ (loss) as a component of shareholders' equity. Upon the adoption of ASU 2016-01, the Company carries these equity securities at the fair value and any changes in the fair value are recognized in the consolidated statements of operations.

- Equity securities without readily determinable fair values

Starting on June 1, 2018, with the adoption of ASU 2016-01, the Group elected a practicability exception to the fair value measurement for the equity securities without readily determinable fair values, under which these investments are measured at cost, less impairment, plus or minus observable price changes of an identical or similar investment of the same issuer with the fair value change recorded in the consolidated statements of operations.

The Group reviews its equity securities without readily determinable fair value for impairment at each reporting period. If a qualitative assessment indicates that the investment is impaired, the Group estimates the investment's fair value in accordance with the principles of ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"). If the fair value is less than the investment's carrying value, the Group recognizes an impairment loss equal to the difference between the carrying value and the fair value in the consolidated statements of operations.

(b) Equity method investments

Investee companies over which the Group has the ability to exercise significant influence, but does not have a controlling interest through investment in common shares or in-substance common shares, are accounted for using the equity method. Significant influence is generally considered to exist when the Group has an ownership interest in the voting stock of the investee between 20% and 50%, and other factors, such as representation on the investee's board of directors, voting rights and the impact of commercial arrangements, are also considered in determining whether the equity method of accounting is appropriate. For certain investments in limited partnerships, where the Group holds less than a 20% equity or voting interest, the Group may also have significant influence.

Under the equity method, the Group initially records its investment at cost and subsequently recognizes the Group's proportionate share of each equity investee's net income or loss after the date of investment into the consolidated statements of operations and accordingly adjusts the carrying amount of the investment.

The Group reviews its equity method investments for impairment whenever an event or circumstance indicates that an other-than-temporary impairment has occurred. The Group considers available quantitative and qualitative evidence in evaluating potential impairment of its equity method investments. An impairment charge is recorded when the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary.

(c) Available-for-sale investments

For investments in investees' shares which are determined to be debt securities, the Group accounts for them as available-for-sale investments when they are not classified as either trading or held-to-maturity investments. Available-for-sale investments are reported at the fair value, with unrealized gains and losses recorded in accumulated other comprehensive income/ (loss) as a component of shareholders' equity.

Realized gains and losses and provision for decline in value determined to be other than temporary, if any, are recognized in the consolidated statements of operations.

The Group reviews its investments for OTTI based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds the investment's fair value, the Group considers, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, the Group's intent and ability to hold the investment, and the financial condition and near term prospects of the investees.

Long-term loan

Long-term loan is recognized at carrying amount. Interest expense is accrued over the estimated term of the facilities and recorded in the consolidated statements of operations.

Non-controlling interests and redeemable non-controlling interests

The Group's consolidated financial statements include entities in which the Company has a controlling financial interest. Earnings or losses attributable to non-controlling interest shareholders of the consolidated affiliated companies are classified separately as "non-controlling interests" in the Company's consolidated statements of operations.

Non-controlling interests in subsidiaries that are redeemable outside of the Company's control for cash or other assets are classified outside of permanent equity. If the redemption event is probable to occur, the Company adjusts the redeemable non-controlling interests to the redemption value on each balance sheet date with the changes recognized as an adjustment to retained earnings, or in the absence of retained earnings, as an adjustment to additional paid-in capital.

Value added tax ("VAT")

Pursuant to the PRC tax laws, in case of any product sales, generally the VAT rate is 3% of the gross sales for small scale VAT payer and 16% (or 13% starting April 1, 2019) of the gross sales for general VAT payer. Most of the subsidiaries of the Company are considered as general VAT payers for the sales of guidance materials and the intercompany sales of self-developed software. For general VAT payer, VAT on sales is calculated at 16% (or 13% starting April 1, 2019) on revenues from product sales and paid after deducting input VAT on purchases. The net VAT balance between input VAT and output VAT is recorded as accrued expenses in the Group's consolidated financial statements.

The new enrollment system development services and other operating services, which were previously subject to business taxes, are now subject to VAT at the rate of 6% of revenues. The non-academic educational programs and services in short-term training schools may choose the applicable simple VAT collection method and apply for a 3% VAT rate. The intercompany sales of self-developed software are subject to VAT at the rate of 13% and the part in excess of the rate of 3% the Group can apply for refund upon collection by relevant tax authorities. The intercompany services related to self-developed software are subject to VAT at the rate of 6%. The sales of books are subject to VAT at the rate of 11% since July 1, 2017, decreased to 10% since May 1, 2018 and further decreased to 9% since April 1, 2019.

Since January 2020, in accordance with Cai Shui [2020] No.8, due to the Novel coronavirus ("COVID-19") pandemic, the VAT on certain services was temporarily exempted for the calendar year 2020.

Revenue recognition

On June 1, 2018, the Group adopted ASC Topic 606 Revenue from Contracts with Customers ("Topic 606"), applying the modified retrospective method to all contracts that were not completed as of June 1, 2018. Results for the years ended May 31, 2019 and 2020 are presented under Topic 606, while revenues for the year ended May 31, 2018 are not adjusted and continue to be reported under ASC Topic 605, Revenue Recognition.

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

The Group generates substantially all of its revenues through educational programs and services with individual students in the PRC. In addition, the Group generates revenues from other services and the sales of books, which were insignificant for the years ended May 31, 2019 and 2020. The following table presents the Group's revenues disaggregated by revenue sources. The Group's revenues are reported net of VAT and surcharges.

The primary sources of the Group's revenues are as follows:

(a) Educational programs and services

The educational programs and services consist of K-12 AST, test preparation and other courses, pre-school education, primary and secondary school education and online education. Each contract of educational programs and services is accounted for as a single performance obligation which is satisfied proportionately over the service period. Tuition fee is generally collected in advance and is initially recorded as deferred revenue. Refunds are provided to students if they decide within the trial period that they no longer want to take the course. After the trial period, if a student withdraws from a class, usually only those unearned portion of the fee is available to be returned. Historically, the Group has not had material refunds.

The Group recognizes revenue from the educational programs and services proportionately when the services are delivered. US\$3,040,741 of revenues of educational programs and services was derived from K-12 AST, test preparation and other courses, and the remaining amount was derived from other segments.

(b) Books and other services

Other service revenues are primarily derived from consulting services to students regarding overseas studies and study tours. Revenues are recognized when promised services are delivered to the Group's customers in an amount of consideration to which the Group expects to be entitled to in exchange for those services. Each contract includes certain milestones and each of the milestones is considered a single performance obligation which is satisfied at the point of time when each of the milestone is reached. Upon the adoption of Topic 606, the Group estimates the variable consideration to be earned and recognizes revenues related to each milestone when the related milestone is achieved. Under the legacy revenue recognition standard, such revenues were deferred and recognized when student admission was reasonably assured. The Group sells books or other educational materials developed or licensed by the Group either through its own distribution channels or through third party distributors. Revenues are recognized when control of the promised goods is transferred to the customer, in an amount that reflects the consideration the Group expects to be entitled to in exchange for the goods. All revenues of books and other services were derived from other segments.

The Group's contract assets consist of accounts receivable. The balance of contract assets amounted to US\$3,137, US\$3,300 and US\$4,178 as of May 31, 2018, May 31, 2019 and May 31, 2020, respectively. The Group's contract liabilities mainly consist of prepayments from customers (deferred revenue), with a balance of US\$1,202,010, US\$1,301,103 and US\$ 1,324,384 as of May 31, 2018, May 31, 2019 and May 31, 2020, respectively. All contract liabilities at the beginning of the year ended May 31, 2020 were recognized as revenues during the year ended May 31, 2020 and the all contract liabilities as of May 31, 2020 are expected to be realized in the following year. The difference between the opening and closing balances of the Group's contract liabilities primarily results from the timing difference between the Group's satisfaction of performance obligation and the customer's payment.

Refund liability mainly related to the estimated refunds that are expected to be provided to students if they decide they no longer want to take the courses. Refund liability estimates are based on historical refund ratio on a portfolio basis using the expected value method. As of May 31, 2018, May 31, 2019 and May 31, 2020, refund liability amounted to US\$68,185, US\$76,221 and US\$94,006, respectively, and are included in accrued expenses and other current liabilities.

Operating leases

Before June 1, 2019, the Group adopted ASC Topic 840 ("ASC 840"), *Leases*, and each lease is classified at the inception date as either a capital lease or an operating lease.

On June 1, 2019, the Group adopted the New Leasing Standard ("ASC 842"), using the modified retrospective transition method resulting in the recording of operating lease right-of-use (ROU) assets of US\$1,254,595 and operating lease liabilities of US\$1,238,080 upon adoption. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. The adoption of the new guidance did not have a material effect on the consolidated statements of operations. As of May 31, 2020, the Group recognized operating lease ROU assets of US\$1,425,466 and total lease liabilities US\$1,462,162, including current portion at the amount of US\$384,239.

The Group determines if an arrangement is a lease or contains a lease at lease inception. Operating leases are required to be recorded in the balance sheets as ROU and lease liabilities, initially measured at the present value of the lease payments. The Group has elected the package of practical expedients, which allows the Group not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. The Group accounts for the lease and non-lease components separately. Lastly, the Company also has elected to utilize the short-term lease recognition exemption and, for those leases that qualified, the Group did not recognize operating lease ROU assets or operating lease liabilities.

As the rate implicit in the lease is not readily determinable, the Group estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated in a portfolio approach to approximate the interest rate on a collateralized basis with similar terms and payments in a similar economic environment. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Group will exercise that option. Lease expenses are recorded on a straight-line basis over the lease term.

Advertising costs

The Group expenses advertising costs as they incurred. Total advertising expenses were US\$55,936, US\$72,386 and US\$105,538 for the years ended May 31, 2018, 2019 and 2020, respectively, and have been included as part of selling and marketing expenses.

Government subsidies

The Group recognizes government subsidies as miscellaneous income when they are received because they are not subject to any past or future conditions, there are no performance conditions or conditions of use, and they are not subject to future return. Government subsidies received and recognized as miscellaneous income totaled US\$2,945, US\$3,684 and US\$43,476, for the years ended May 31, 2018, 2019 and 2020, respectively. The government subsidies income recognized for the year ended May 31, 2020 were mainly from the VAT exemption due to the COVID-19.

Foreign currency translation

The Company's functional and reporting currency is the United States dollars ("U.S. dollars"). The financial records of the Company's subsidiaries, the VIEs, the VIEs' subsidiaries and schools located in the PRC are maintained in Renminbi ("RMB"), which is the functional currency of these entities. The financial records of the Company's subsidiaries located in Hong Kong are maintained in U.S. dollars, which is the functional currency of these entities. The financial records of the Company's subsidiaries located in United Kingdom are maintained in their local currency, the Great Britain Pound ("GBP"), which is the functional currency of these entities. The financial records of the Company's subsidiary located in Australia are maintained in its local currency, the Australian Dollar ("AUD"), which is the functional currency of the entity. All financial records of the other entities are maintained in U.S. dollars, which is the functional currency of those entities.

Monetary assets and liabilities denominated in currencies other than the applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized in the consolidated statements of operations.

For translating to the functional currency of the Company, assets and liabilities are translated into the reporting currency at the rates of exchange ruling at the balance sheet date. Equity accounts are translated at historical exchange rates. Revenues, expenses, gain and loss are translated using the average rate of exchange in effect during the reporting period. Translation adjustments are reported and shown as a separate component of other comprehensive income in the consolidated statements of changes in equity and the consolidated statements of comprehensive income.

Foreign currency risk

RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of RMB into other currencies. The value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The Group's cash and cash equivalents, restricted cash, and term deposits denominated in RMB amounted to US\$989,070, US\$1,105,190 and US\$855,654 as of May 31, 2018, 2019 and 2020, respectively.

Fair value

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

Level 1

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

Level 2

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

Level 3

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

Fair value of financial instruments

The Group's financial instruments consist primarily of cash and cash equivalents, restricted cash, term deposit, short-term investments, accounts receivable, amounts due from/to related parties, available-for-sale investments, equity security with/without readily determinable fair values, accounts payable, contingent consideration in acquisitions, long-term loan and income tax payable. The Group carries its available-for-sale investments and equity securities with readily determinable fair values at fair value and carries equity securities without readily determinable fair values at cost, less impairment, plus or minus observable price changes in a similar transaction. The Group carries its contingent consideration in acquisitions at fair value which is determined based on the best estimation from the managements. The carrying amounts of the long-term loan approximate fair value as its interest rates are at the same level of current market yield for comparable debts. The carrying amounts of other financial instruments approximate their fair values due to the short-term maturities of these instruments.

Net income per share

Basic net income per share is computed by dividing net income attributable to the holders of common shares by the weighted average number of common shares outstanding during the year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised into common shares. Common share equivalents are excluded from the computation of the diluted net income per share in years when their effect would be anti-dilutive. The Group has share options and NES which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted net income per share, the effect of the share options and NES is computed using the treasury stock method. The effect of mezzanine equity is computed using the if-converted method.

Income taxes

The Group accounts for income taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities, net of operating loss carry forwards and credits, by applying enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of operations in the period of change. Deferred tax assets are reduced by a valuation allowance when it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Group accounts for uncertain tax positions by reporting a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Tax benefits are recognized from uncertain tax positions when the Group believes that it is more likely than not that the tax position will be sustained on examination by the tax authorities based on the technical merits of the position. The Group recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expenses.

Comprehensive income

Comprehensive income includes net income, unrealized gain or loss on available-for-sale investments and foreign currency translation adjustment. Comprehensive income is reported in the consolidated statements of comprehensive income.

Share-based compensation

Share-based payments to employees and directors are measured based on the grant-date fair value of the equity instrument issued and recognized as compensation expenses net of forfeitures on a straight-line basis over the requisite service period, with a corresponding addition to the additional paid-in capital. The Group uses the binomial option pricing model to measure the fair value of options granted, and the quoted market price of the common shares or the fair value of underlying ordinary shares of Koolearn Holding before its IPO by using the discounted cash flow method, to measure the fair value of options and NES granted to employees at each measurement date. The binomial option pricing model is adopted because the Group believes that considering the possibility of exercise an option over the life of the option, as affected by the reality of changing stock prices and non-constant risk free rates, would better reflect the measurement objective of relevant accounting literature.

The amount of compensation expenses recognized at any date is at least equal to the portion of the fair value of the awards that are vested as of that date. Forfeitures are recognized as they occur.

Concentration of credit risk

Financial instruments that potentially expose the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, term deposits, restricted cash, short-term investments and accounts receivable. As of May 31, 2020, substantially all of the Group's cash and cash equivalents, term deposits, restricted cash and short-term investments were deposited with financial institutions with high-credit ratings and quality. Accounts receivable are typically unsecured and are derived from revenues earned from customers in the PRC. The Group performs periodic credit evaluations and provides an allowance for doubtful accounts to reduce the accounts receivable balance to its net realizable value. The Group did not have any customers constituting 10% or more of the consolidated net revenues and accounts receivable in the fiscal years 2018, 2019 and 2020, respectively.

Recent accounting pronouncements adopted

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, Leases (ASC 842). The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public companies, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In July 2018, ASU 2016-02 was updated with ASU 2018-11, Targeted Improvements to ASC 842, which provides entities with relief from the costs of implementing certain aspects of the new leasing standard. Specifically, under the amendments in ASU 2018-11, (1) entities may elect not to recast the comparative periods presented when transitioning to ASC 842 and (2) lessors may elect not to separate lease and nonlease components when certain conditions are met. Before ASU 2018-11 was issued, transition to the new lease standard required application of the new guidance at the beginning of the earliest comparative period presented in the financial statements.

The Group adopted this standard on June 1, 2019 and elected not to recast the comparative periods presented. In addition, the Group accounts for lease and non-lease components separately. The consolidated balance sheets and the consolidated statements of operations and cash flows for reporting periods beginning after June 1, 2019 are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under ASC 840.

The adoption did not have a material impact on the Group’s consolidated statements of operations or consolidated statements of cash flows, and the adoption of ASC 842 did not result in a cumulative-effect adjustment to the opening balance of retained earnings. Further information is disclosed in Note 13.

In January 2017, the FASB issued ASU 2017-04: Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. Under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The update should be applied on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. A public business entity that is a SEC filer should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Group early adopted ASU 2017-04 for the annual goodwill impairment test on June 1, 2019.

Recently issued accounting pronouncements not yet adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements. This ASU requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. This ASU affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. This ASU affects loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. For public business entities, this ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt this ASU through a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). On April 25, 2019, ASU 2016-13 was updated with ASU 2019-04, which clarifies certain aspects of accounting for credit losses, hedging activities, and financial instruments. ASU 2019-04 provides certain alternatives for the measurement of the allowance for credit losses (ACL) on accrued interest receivable (AIR). These measurement alternatives include (1) measuring an ACL on AIR separately, (2) electing to provide separate disclosure of the AIR component of amortized cost as a practical expedient, and (3) making accounting policy elections to simplify certain aspects of the presentation and measurement of such AIR. For entities that have adopted ASU 2016-13, the amendments in ASU 2019-04 related to ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, and interim periods therein. An entity may early adopt ASU 2019-04 in any interim period after its issuance if the entity has adopted ASU 2016-13. The Group does not expect this standard to have a material impact on its consolidated financial statements.

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In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value”. ASU 2018-13 removes and modifies existing disclosure requirements on fair value measurement, namely regarding transfers between levels of the fair value hierarchy and the valuation processes for Level 3 fair value measurements. Additionally, ASU 2018-13 adds further disclosure requirements for Level 3 fair value measurements, specifically changes in unrealized gains and losses and other quantitative information. ASU 2018-13 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Group does not expect any material impact on its consolidated financial statements and related disclosures as a result of adopting this standard.

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to the Related Party Guidance for Variable Interest Entities. ASU 2018-17 changes how entities evaluate decision-making fees under the variable interest entity guidance. To determine whether decision-making fees represent a variable interest, an entity considers indirect interests held through related parties under common control on a proportional basis, rather than in their entirety. The Group is in the process of evaluating the impact of the adoption of this pronouncement on its consolidated financial statements.

3. BUSINESS ACQUISITIONS

Business acquisition in fiscal year 2018:

Acquisition of Hangzhou Shengshen Technology Co., Ltd (“Hangzhou Shengshen”)

In October 2017, the Group acquired 100% equity interest in Hangzhou Shengshen, a K-12 education group located in Zhejiang, for a total consideration of US\$11,012, in which US\$5,309, US\$2,043 and US\$931 had been paid based on the payment schedule during the years ended May 31, 2018, 2019 and 2020, respectively. The acquisition was recorded using the acquisition method of accounting, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The purchase price allocation was determined by the Group with assistance of an independent appraiser. The purchase price was allocated on the date of acquisition as follows:

	US\$	Amortization period
Cash	3,571	
Other current assets	704	
Property and equipment	1,148	1-5 years
Intangible assets		
Trademark	1,713	5 years
Student base	2,164	3 years
Goodwill	9,809	
Deferred revenue	(5,566)	
Other current liabilities	(1,562)	
Deferred tax liabilities	(969)	
Total	<u>11,012</u>	

Other acquisitions

During the year ended May 31, 2018, the Group also made several other business acquisitions, which were insignificant.

The total cash consideration of these other business acquisitions was US\$6,992, in which US\$5,902, US\$381 and US\$376 had been paid during the years ended May 31, 2018, 2019 and 2020, respectively. The cash and cash equivalents, intangible assets, goodwill, deferred revenue and non-controlling interests acquired from these business acquisitions were US\$8,639, US\$2,294, US\$6,383, US\$15,215 and US\$1,683, respectively. The purchase price allocations were determined by the Group with assistance of an independent appraiser.

The following summarized unaudited pro forma results of operations for the years ended May 31, 2017 and 2018 assuming that these acquisitions during the year ended May 31, 2018 occurred as of June 1, 2016. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of June 1, 2016, nor is it indicative of future operating results.

	For the years ended May 31,	
	2017	2018
	(unaudited)	(unaudited)
	US\$	US\$
Pro forma net revenues	1,815,660	2,451,735
Pro forma net income attributable to New Oriental Education and Technology Group Inc.	275,685	296,697
Pro forma net income per share – basic	1.75	1.88
Pro forma net income per share – diluted	1.75	1.87

Business acquisition in fiscal year 2019:

Acquisition of Suzhou Hongyi Education Investment Co., Ltd. (“Suzhou Hongyi”)

In September 2018, the Group acquired 100% equity interests in Suzhou Hongyi, a company engaging in pre-school education, for a total consideration of US\$42,608. The total consideration is contingent based on its financial performance in the transition period and capped to US\$42,608. During the years ended May 31, 2019, the Group paid US\$27,458 and recorded a contingent consideration payable of US\$15,150. The contingent consideration payable was recorded at fair value and was subsequently remeasured to fair value at each reporting period thereafter until it was settled by the Group in January 2020. The acquisition was recorded using the acquisition method of accounting, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The purchase price allocation was determined by the Group with the assistance of an independent appraiser. The purchase price was allocated on the date of acquisition as follows:

	US\$	Amortization period
Cash	1,321	
Other current assets	2,020	
Property and equipment	402	1-5 years
Intangible assets		
Trademark	1,845	5 years
Student base	4,656	3 years
Goodwill	37,860	
Other current liabilities	(3,871)	
Deferred tax liabilities	(1,625)	
Total	<u>42,608</u>	

Asia Pacific Montessori Education Co., Ltd. (“Asia Pacific”)

In November 2017, the Group invested US\$11,216 in Asia Pacific, a kindergarten group located in Beijing and Hangzhou engaged in pre-school education, for a 35% equity interests. The investment in Asia Pacific was previously accounted for as a cost method investment prior to June 1, 2018 and was subsequently accounted as equity securities without readily determinable fair value after the adoption of ASU 2016-01. In December 2018, the Group acquired another 65% equity interests in Asia Pacific for a total consideration of US\$12,600, in which US\$8,784 and US\$1,071 had been paid during the years ended May 31, 2019 and 2020, respectively.

The acquisition of 65% equity interest was accounted for as a step acquisition whereby the Group remeasured the fair value of its previously held equity interest in Asia Pacific. The fair value of the previous equity interest held by the Group was measured at fair value using a discounted cash flow method and taking into account certain factors including the projection of discounted future cash flow and an appropriate discount rate. The fair value remeasurement of the 35% equity interest in Asia Pacific resulted in a loss of US\$4,298.

After this transaction, the Group held 100% equity interests of Asia Pacific. The acquisition was recorded using the acquisition method of accounting, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The purchase price allocation was determined by the Group with the assistance of an independent appraiser. The purchase price was allocated on the date of acquisition as follows:

	US\$	Amortization period
Cash	1,269	
Other current assets	695	
Property and equipment	251	1-5 years
Intangible assets		
Trademark	2,085	5 years
Student base	1,064	3 years
Goodwill	17,043	
Other non-current assets	2,086	
Other current liabilities	(4,189)	
Deferred tax liabilities	(787)	
Fair value of the 35% equity interests previously held	<u>(6,917)</u>	
Total	<u>12,600</u>	

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Other acquisitions

During the year ended May 31, 2019, the Group also made several other business acquisitions.

The cash consideration of these other business acquisition amounted to US\$441, in which US\$398 and US\$43 had been paid during the years ended May 31, 2019 and 2020, respectively. The cash and cash equivalents and goodwill acquired from those business acquisitions amounted to US\$107 and US\$729, respectively. The purchase price allocations were determined by the Group with the assistance of an independent appraiser.

The following summarized unaudited pro forma results of operations for the years ended May 31, 2018 and 2019 assuming that these acquisitions during the year ended May 31, 2019 occurred as of June 1, 2017. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred as of June 1, 2017, nor is it indicative of future operating results.

	For the years ended May 31,	
	2018	2019
	(unaudited)	(unaudited)
	US\$	US\$
Pro forma net revenues	2,451,735	3,100,364
Pro forma net income attributable to New Oriental Education and Technology Group Inc.	296,697	238,794
Pro forma net income per share – basic	1.88	1.51
Pro forma net income per share – diluted	1.87	1.50

Business acquisition in fiscal year 2020:

During the year ended May 31, 2020, the Group made a business acquisition for a total consideration of US\$1,153. The Group paid an amount of US\$346 based on the payment schedule during the year ended May 31, 2020 and the unpaid amount is US\$807. The acquisition was recorded using the acquisition method of accounting, accordingly, the acquired assets and liabilities were recorded at their fair value on the date of acquisition. The intangible assets and goodwill acquired from the acquisition was US\$1,149 and US\$2,815, respectively. The purchase price allocation was determined by the Group with the assistance of an independent appraiser.

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Pro forma financial information is not presented for the business acquisition in fiscal year 2020 as it is immaterial to the reported results.

The revenue and net loss attributable to this acquisition included in the Company's consolidated statements of operations since the acquisition date were US\$829 and US\$1,115, respectively.

4. SHORT-TERM INVESTMENTS

Short-term investments consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Held-to-maturity investments	<u>1,623,763</u>	<u>1,668,689</u>	<u>2,318,280</u>

Short-term investments mainly consist of various financial products purchased from Chinese banks and trusts and are classified as held-to-maturity investments as the Group has the positive intent and ability to hold the investments to maturity. The maturities of these financial products range from one month to less than one year, with variable interest rates. They are classified as short-term investments on the consolidated balance sheets as their contractual maturity dates are equal to or less than one year.

The Group estimated that their fair value approximate their amortized costs. No OTTI loss was recognized for the years ended May 31, 2018, 2019 and 2020, respectively.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Advances to suppliers	43,913	45,665	49,547
Prepaid rents (a)	56,531	52,794	39,706
Interest receivables	23,647	23,856	33,488
Staff advances (b)	9,544	14,811	24,712
Receivable from third parties' platforms	5,967	9,831	10,593
Rental deposits	10,953	9,539	10,326
Prepaid advertising fees	6,917	4,564	7,607
VAT recoverable	3,493	2,297	5,562
Deposits of advertising and decoration	3,342	3,020	2,594
Prepaid property taxes and other taxes	212	455	779
Others (c)	18,490	33,093	14,639
	183,009	199,925	199,553
Less: allowance for other receivables	(914)	(248)	(149)
	182,095	199,677	199,404

- (a) Prepaid rents represent the prepayment of rent related to leases less than 12 months.
- (b) Staff advances were provided to staff for travelling and business related use and are expensed as incurred.
- (c) Others primarily included prepaid maintenance fees, other receivables and other miscellaneous prepayments.

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Buildings	156,324	142,047	178,782
Transportation equipment	9,936	9,565	9,172
Furniture and education equipment	128,670	153,674	195,262
Computer equipment and software	65,227	70,995	95,385
Leasehold improvements	349,953	451,105	579,231
Construction in progress	30,921	36,376	44,856
	741,031	863,762	1,102,688
Less: accumulated depreciation	(275,940)	(342,106)	(453,218)
Exchange differences	(15,499)	10,359	22,985
	449,592	532,015	672,455

Depreciation expenses for the years ended May 31, 2018, 2019 and 2020 were US\$77,081, US\$110,042 and US\$146,310, respectively.

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7. LAND USE RIGHTS, NET

Land use rights, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Land use rights	5,315	7,955	7,696
Less: accumulated amortization	(1,417)	(1,680)	(1,842)
Exchange differences	(113)	130	183
Land use rights, net	<u>3,785</u>	<u>6,405</u>	<u>6,037</u>

Amortization expenses for land use rights for the years ended May 31, 2018, 2019 and 2020 were US\$110, US\$263 and US\$162, respectively. The Group expects to recognize amortization expense in aggregate of US\$810 in coming five years and US\$5,227 thereafter.

8. INTANGIBLE ASSETS, NET

Intangible assets, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Intangible assets with indefinite lives:			
Trademark	256	238	229
Intangible assets with finite lives:			
Trademark	5,575	9,109	9,170
Courseware	129	120	116
Student base	7,014	12,223	12,719
Favorable lease	732	679	657
License	415	415	415
	<u>14,121</u>	<u>22,784</u>	<u>23,306</u>
Less: accumulated amortization	(5,272)	(8,985)	(13,515)
Exchange differences	(305)	136	455
	<u>8,544</u>	<u>13,935</u>	<u>10,246</u>

Amortization expenses for the intangible assets for the years ended May 31, 2018, 2019 and 2020, were US\$1,839, US\$3,699 and US\$4,530, respectively. As of May 31, 2020, the Group expects to recognize amortization expenses of US\$4,068, US\$2,684, US\$1,774, US\$789 and US\$345 for the next five years, respectively, and US\$357 thereafter.

9. GOODWILL, NET

Goodwill, net, consisted of the following:

	As of May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Beginning balance	15,765	33,411	86,541
Acquisition	16,192	55,632	2,815
Exchange differences	1,454	(2,502)	(2,063)
Ending balance	33,411	86,541	87,293
Accumulated impairment	(1,682)	(6,927)	(6,927)
Goodwill, net	<u>31,729</u>	<u>79,614</u>	<u>80,366</u>

The Group recorded nil, US\$5,245 and nil impairment losses on goodwill for the years ended May 31, 2018, 2019 and 2020, respectively. The Group performed its annual goodwill impairment testing at the end of each reporting period or more frequently if events or changes in circumstances indicate that it might be impaired.

10. LONG-TERM INVESTMENTS, NET

Long-term investments, net, consisted of the following:

	As of May 31,		
	2018 US\$	2019 US\$	2020 US\$
Equity securities with readily determinable fair value:			
Sunlands Online Education Group (“Sunlands”) (a)	134,423	37,802	21,440
Beijing Shengtong Printing Co., Ltd (“Shengtong”) (b)	9,261	6,839	4,066
Tarena International, Inc. (“Tarena”) (c)	9,610	3,200	2,190
Equity securities without readily determinable fair value:			
Tibet Tianli Education and Technology Co., Ltd (“Tibet Tianli”) (d)	—	4,346	10,512
EEO Education Technology Co., Ltd. (“EEO”) (e)	9,767	9,069	8,774
Other investments (f)	28,740	30,663	30,797
Equity method investments:			
New Oriental Education and Culture Industry Fund (Zhangjiagang) Partnership (Limited Partnership) (“Education Industry Fund”) (g)	—	67,834	67,057
VM EDU Fund I, L.P.(h)	—	—	56,734
Other investments (i)	9,131	20,191	27,716
Available-for-sale investments:			
Shanghai Golden Education & Training Co., Ltd. (“Golden Finance”) (j)	86,937	61,963	59,947
Tianjin Uhozz Internet Technology Co., Ltd (“Uhozz”) (k)	12,826	16,350	16,350
Shanghai ALO7 Technology Co., Ltd. (“Alo7.com”) (l)	14,395	14,289	14,289
Lele Global Limited (“Lele”) (m)	9,157	11,251	11,680
Other available-for-sale investments (n)	109,086	120,907	99,549
	<u>433,333</u>	<u>404,704</u>	<u>431,101</u>

- (a) In January 2016, the Group invested US\$12,310 in Sunlands, a company engaged in online education specific to vocational qualification training, for subscribing the convertible bonds. In July 2016, the Group converted all of the convertible bonds into redeemable preferred shares of Sunlands for a 4.9% equity interests. Additionally, the Group also invested an additional US\$12,205 redeemable preferred shares for another 4.9% equity interests in Sunlands during July 2016. Subsequent to the additional investment, the Group holds 9.8% equity interest in Sunlands.

On March 23, 2018, Sunlands was listed in the New York Stock Exchange Market. All of the preferred shares were converted to 529,426 Class A ordinary shares immediately upon the completion of the listing. Subsequent to the listing, the Group invested an additional US\$10,000 and obtained 34,783 Class A ordinary shares in April 2018 and held 8% aggregate equity interests in Sunlands. Unrealized gains of US\$101,779 was reported in other comprehensive income for the year ended May 31, 2018. Upon the adoption of ASU 2016-01, the investment was reclassified from available-for-sale investment to equity security with readily determinable fair value on June 1, 2018, and losses of US\$ 96,621 and US\$ 16,362 were recorded in loss from fair value change of long-term investments for the years ended May 31, 2019 and 2020, respectively, on the Group’s consolidated statements of operations.

- (b) In April 2015, the Group acquired 18% equity interests in Beijing ROBOROBO Technology Co., Ltd. (“ROBOROBO”) for a cash consideration of US\$4,356. Roborobo is a company applying various robots build training course for kids with different ages. In February 2017, the Group disposed all of the ownership in ROBOROBO, in exchange for 1.87% common shares issued by Shengtong, which is a listed A-share company in China. Realized gain of US\$7,086 was recognized during the year ended May 31, 2017. The equity interests acquired in Shengtong were classified as equity security with readily determinable fair value. Unrealized loss of US\$1,450 was reported in other comprehensive income for the year ended May 31, 2018. Upon the adoption of ASU 2016-01, the investment was reclassified from available-for-sale investment to equity security with readily determinable fair value on June 1, 2019, losses of US\$1,605 and US\$1,079 were recorded in loss from fair value change of long-term investments for the years ended May 31, 2019 and 2020, respectively.

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- (c) In March 2014, the Group invested US\$13,500 in Tarena, a NASDAQ listed company that provides IT professional education services in China, for 3% equity interests. In July 2017, the Group sold 1% equity interest in Tarena to third parties and the realized gain of US\$4,545 was recognized in investment income for the year ended May 31, 2018. Unrealized loss of US\$7,040 was reported in other comprehensive income for the year ended May 31, 2018. Upon the adoption of ASU 2016-01, the investment was reclassified from available-for-sale investment to equity security with readily determinable fair value on June 1, 2019, losses of US\$6,410 and US\$1,010 were recorded in loss from fair value change of long-term investments for the years ended May 31, 2019 and 2020, respectively.
- (d) In December 2018, the Group invested 5% equity interests in Tibet Tianli, a company engaged in the developing educational products. In April 2020, the Group further subscribed 5% equity interests. The Group accounted for the investment as equity securities without readily determinable fair values as Tibet Tianli is a private company without readily determinable fair value. As of May 31, 2020, the Group holds 9.75% of the total equity interests in Tibet Tianli after the dilution. For the years ended May 31, 2018, 2019 and 2020, no impairment loss was recorded from this investment.
- (e) In April 2017, the Group acquired 10% equity interests in EEO, a company engaged in the business of developing on-line classroom product which were accounted for using the cost method because it is not in-substance common share for the year ended May 31, 2018. After the adoption of ASU 2016-01, the Group accounted for the equity investments using the measurement alternative when the equity method is not applicable and there is no readily determinable fair value for the investments. For the years ended May 31, 2018, 2019 and 2020, no impairment loss was recorded in regard to the investment.
- (f) The Group holds several insignificant investments in third-party private companies and has no ability to exercise significant influence over the investees, which were accounted for using the cost method prior to the adoption of ASU 2016-01. After the adoption of ASU 2016-01, the Group accounted for these equity investments using the measurement alternative when cost method is not applicable and there is no readily determinable fair value for the investments. The Group was recorded nil, nil and US\$ 9,096 impairment loss on these investment during the years ended May 31, 2018, 2019 and 2020, respectively.
- (g) In July 2018, Education Industry Fund was established with the total committed capital of US\$224,000. There are two general partners in the fund, which include an entity invested by Mr. Yu and an unrelated third party. The Group participates in Education Industry Fund as a limited partner and invested US\$75,000 in Education Industry Fund as of May 31, 2020. The Group accounts for the investment under the equity method in accordance with ASC 323 because the Group is a limited partner and owns 33% interest in Education Industry Fund.
- (h) In June 2019, VM EDU Fund I, LP, a market-driven investment entity, was established with total committed capital of US\$100,000. The Group participates in VM EDU Fund I, LP as a limited partner and invested US\$56,149 in VM EDU Fund I, LP. The Group accounts for the investment under the equity method in accordance with ASC 323 because the Group is a limited partner and does not have control over VM EDU Fund I, LP.
- (i) The Group holds from 6.86% to 50% equity interests in other 15 third-party companies through investments in their common shares or in-substance common shares. The majority of the long-term investments are engaged in the business of providing educational services. The Group accounts for these investments under the equity method because the Group has the ability to exercise significant influence but does not have control over the investees, even though the Group holds less than 20% equity interests in some of the investees.
- (j) In April 2015, the Group invested 9.75% equity interests in Golden Finance, a company engaged in training programs business associated with finance and business management. In November 2015, the Group further subscribed 9.75% equity interests. During the year ended May 31, 2019, the Group disposed of 7.2% equity interests in Golden Finance with total consideration of US\$33,156, and the remaining shares were diluted to 12.3%. Gain of US\$23,096 was recognized as realized gain from long-term investments in the consolidated statements of operations for the year ended May 31, 2019. The Group accounts for the investment as available-for-sale investments since the investee's preferred shares held are redeemable and determined to be debt securities and measured at fair value.
- (k) In May 2015, the Group invested in Uhozz, a company providing overseas rental agency services, for 10% equity interests with redemption and liquidation preferences. In March 2018, the Group further subscribed 15.18% series B preferred shares. The Group accounted for the investment as available-for-sale investments since the investee's preferred shares held are redeemable and determined to be debt securities and measured them at fair value.

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- (l) In March 2012, the Group acquired a convertible promissory note from Alo7.com for US\$1,000, which entitled the Group to automatically convert the note into equity security upon certain conditions were met. In July 2012, the Group converted the US\$1,000 promissory note into convertible redeemable preferred shares for a 3.4% equity interests in Alo7.com on an as-converted basis. In 2014, the Group further invested redeemable preferred shares into Alo7.com. As of May 31, 2020, the Company held a 14.3% equity interests in Alo7.com.
- (m) In September 2015, the Group invested in Lele, a company providing online learning and tutoring services for students from kindergarten through 12th grade, to acquire 48,796,296 convertible redeemable preferred shares for an 8.5% equity interests. In December 2018, the Group further in invested series C preferred shares in Lele. As of May 31, 2020, the Group held a 7.8% equity interests in Lele. The investment was classified as available-for-sale investment as the Group determined the preferred shares were debt securities due to substantive redemption right and measured the investment at fair value.
- (n) Other available-for-sale investments represent several insignificant individual investments classified as available-for-sale investments as of May 31, 2018, 2019 and 2020. Realized gains of US\$2,821, US\$3,283 and US\$407 were recorded in realized gain from long-term investments for the years ended May 31, 2018, 2019 and 2020, respectively. The Group recognized impairment losses from long-term investments amounting to US\$980, US\$5,919 and US\$31,750 for the years ended May 31, 2018, 2019 and 2020, respectively, as the Group believes the carrying value of these investments were no longer recoverable.

The Group recorded unrealized gain of US\$129,545, US\$19,483 and unrealized loss of US\$748 from available for sale investments for the years ended May 31, 2018, 2019 and 2020, respectively.

11. FAIR VALUE MEASUREMENT

Assets and liabilities measured at fair value on a recurring basis

The Group measures available-for-sale investments, equity securities with readily determinable fair value and contingent consideration payable at fair value on a recurring basis. The available-for-sale investments recorded in long-term investments include redeemable preferred shares, convertible note and special assets management plan-Guotai Yuanxin & New Oriental (“Assets Management Plan”). The equity securities with readily determinable fair value were common shares of three listed companies.

As of May 31, 2018, 2019 and 2020, information about inputs for the fair value measurements of the Group’s assets that are measured at fair value on a recurring basis in periods subsequent to their initial recognition is as follows:

Description	As of May 31, 2018			Total US\$
	Quoted Prices in Active Market for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Long-term investments:				
Available-for-sale investments	153,294	98,504	133,897	385,695

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Description	As of May 31, 2019			Total US\$
	Quoted Prices in Active Market for Identical Assets Level 1 US\$	Significant Other Observable Inputs Level 2 US\$	Significant Unobservable Inputs Level 3 US\$	
Long-term investments:				
Equity securities with readily determinable fair values	47,841	—	—	47,841
Available-for-sale investments	—	78,879	145,881	224,760
Contingent consideration payable (Note 3)	—	—	15,150	15,150
Total	47,841	78,879	161,031	287,751

Description	As of May 31, 2020			Total US\$
	Quoted Prices in Active Market for Identical Assets Level 1 US\$	Significant Other Observable Inputs Level 2 US\$	Significant Unobservable Inputs Level 3 US\$	
Long-term investments:				
Equity securities with readily determinable fair values	27,696	—	—	27,696
Available-for-sale investments	—	41,889	159,926	201,815
Total	27,696	41,889	159,926	229,511

The Company measured the fair value of its investments in common shares using the market approach based on the quoted stock price of its investees in the active market and has classified it as level 1 measurement.

The Company measured the fair value of its investment in convertible note and Assets Management Plan based on the respective principal and expected returns and has classified those as level 2 measurement.

For redeemable preferred shares that do not have a quoted market rate, the Company measured their fair value based on recent transactions or based on the market approach or income approach when no recent transactions are available. Recent transactions include the purchase price agreed by an independent third party for a similar investment and have been classified as level 2 measurement. When no recent transactions are available, a market approach or income approach will be used by the Company to measure fair value. The market approach takes into consideration a number of factors including market multiple and discount rates from traded companies in the industry and requires the Company to make certain assumptions and estimates regarding industry factors. Specifically, some of the significant unobservable inputs included the investee's historical earning, discount of lack of marketability, investee's time to initial public offering as well as related volatility. The income approach takes into consideration a number of factors including management projection of discounted future cash flow of the investee as well as an appropriate discount rate. The Company has classified those as level 3 measurement. The assumptions are inherently uncertain and subjective. Changes in any unobservable inputs may have a significant impact on the fair values.

The balance of contingent consideration payable as of May 31, 2019 is related to the acquisition of Suzhou Hongyi and the Company measured the fair value of its contingent consideration payable based on its best estimation on the financial performance of Suzhou Hongyi in the transition period as agreed in the acquisition agreement. As of May 31, 2020, the Company has paid off this contingent consideration with no gain or loss recognized.

The Group did not have any transfers between level 1 and level 2 fair value measurements during the periods presented. During the year ended May 31, 2018, the Group transferred one redeemable preferred share from level 3 to level 1 for a total of US\$32,644. During the years ended May 31, 2019 and 2020, the Group did not have such transaction. During the year ended May 31, 2020, the Group transferred two investments from level 3 to level 2 for a total of US\$5,713 and two investments from level 2 to level 3 for a total of US\$ 11,534.

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The following table provides additional information about the reconciliation of the fair value measurements of assets and liabilities using significant unobservable inputs (level 3).

	Level 3 investments US\$
Balance as of June 1, 2017	123,029
Transfer to level 1 fair value measurements	(32,644)
Unrealized gain	43,512
Balance as of May 31, 2018	133,897
Initial recognition	45,989
Unrealized loss	(18,855)
Balance as of May 31, 2019	161,031
Initial recognition	10,000
Transfer from level 2	11,534
Transfer to level 2	(5,713)
Unrealized loss	(16,926)
Balance as of May 31, 2020	<u>159,926</u>

Assets and liabilities measured at fair value on a nonrecurring basis

Goodwill and acquired intangible assets are measured at fair value on a non-recurring basis when an impairment is recognized.

The Group measures goodwill at fair value annually or whenever events or changes in circumstances indicate that the carrying amount of a reporting unit exceeds its fair value. The fair value of goodwill is determined using discounted cash flows, and an impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Refer to Note 9 for the goodwill impairment loss recognized for the years ended May 31, 2018, 2019 and 2020. The Group measures acquired intangible assets using the income approach—discounted cash flow method, when events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. The Group did not recognize any impairment loss related to intangible assets acquired for the years ended May 31, 2018, 2019 and 2020.

The Group measures long-term investments (excluding the equity securities with readily determinable fair values and available-for-sale investments) at fair value on a nonrecurring basis only if an impairment or observable price adjustment is recognized in the current period. Refer to Note 10 for the long-term investments impairment loss recognized for the years ended May 31, 2018, 2019 and 2020.

For equity securities without readily determinable fair values, the fair value was determined using directly or indirectly observable inputs in the market place (Level 2 inputs). Whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable, the fair value of aforementioned long-term investments was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management projection of discounted future cash flow and the discount rate.

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	As of May 31,		
	2018 US\$	2019 US\$	2020 US\$
Accrued payroll	212,677	285,329	331,172
Refund liability (a)	—	76,221	94,006
Payable for purchase of property and equipment	45,590	44,445	65,335
Accrued advertising fees	8,548	11,934	20,231
Refundable fees received from students (b)	11,541	15,783	15,955
Refundable deposits (c)	7,290	11,074	14,819
Rent payable	18,210	23,643	13,857
Welfare payable	9,187	12,897	12,612
Amounts reimbursable to employees (d)	16,157	19,366	12,674
Royalty fees payable (e)	4,410	7,724	6,696
Accrued professional service fees	1,134	1,943	6,199
Payable for investments and acquisitions	5,420	21,962	3,917
VAT payable	12,125	13,321	2,881
Other taxes payable	2,945	2,715	1,785
Others (f)	18,303	28,164	32,480
Total	<u>373,537</u>	<u>576,521</u>	<u>634,619</u>

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- (a) The refund liability is recognized for variable amount of the considerations received from clients and recorded as refund liability in accordance with Topic 606 as described in Note 2.
- (b) Refundable fees received from students represent (1) the miscellaneous expenses other than tuition fees received from students which will be paid out on their behalf; and (2) tuition fees refundable to students for classes withdrawn.
- (c) Refundable deposits represent student deposits for dormitory or other fees that will be refunded upon graduation and student security deposits refunded upon completion of the study tour.
- (d) Amounts reimbursable to employees include travelling and the business related expenses.
- (e) Royalty fees payable relate to payments to content providers for on-line learning programs and those to counterparties for copyrights and resource sharing.
- (f) Others primarily include transportation expenses, utility fees, property management fees and other miscellaneous expenses payable.

13. Lease

The Group has operating leases for learning centers, service centers and office spaces. Certain leases include renewal options and/or termination options, which are factored into the Group's determination of lease payments when appropriate.

Operating lease cost for the year ended May 31, 2020 was \$392,168, which excluded cost of short-term contracts. Short-term lease cost for the year ended May 31, 2020 was \$9,028.

As of May 31, 2020, the weighted average remaining lease term was 4.7 years and the weighted average discount rate was 4.2% for the Group's operating leases.

Supplemental cash flow information related to the operating leases is as follows:

	For the year ended May 31, 2020 US\$
Cash payments for the operating leases	371,734
ROU assets obtained in exchange for the new operating lease liabilities	<u>639,545</u>

A summary of maturity analysis of the annual undiscounted cash flows for the operating lease liabilities as of May 31, 2020 is as follows:

	As of May 31, 2020 US\$
Fiscal year ending	
May 2021	407,854
May 2022	367,805
May 2023	302,990
May 2024	225,387
May 2025	130,190
Thereafter	176,984
Total future lease payments	1,611,210
Less: Imputed interest	(149,048)
Present value of operating lease liabilities	<u>1,462,162</u>

As of May 31, 2020, the Group has lease contracts that have been entered into but not yet commenced amounting to \$32,949, and these contracts will commence during fiscal year 2021.

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As of May 31, 2019, the future minimum lease payments under the Group's non-cancelable operating lease agreements based on ASC 840 are as follows:

Fiscal year ending	As of
	May 31, 2019
	US\$
May 2020	360,972
May 2021	337,751
May 2022	297,379
May 2023	212,814
May 2024	143,899
Thereafter	162,882
Total future lease payments	<u>1,515,697</u>

14. LONG-TERM LOAN

Facilities Agreement

On December 14, 2018, the Company entered into a three-year US\$250,000 term and revolving facilities agreement (the "Facilities Agreement") with a group of lenders. The facility, a US\$100,000 three-year bullet maturity term loan (the "Facilities A"), a US\$100,000 three-year revolving facility (the "Facilities B") and an additional commitment of US\$50,000, are priced at 165 basis points over London Interbank Offered Rate. The additional commitment of US\$50,000 expired in April 2019. The interest is payable on a quarterly basis.

The Company paid a commitment fee of 0.3% per annum based on the undrawn portion of the facilities for the period commencing on 45 days after the falling of the Facilities Agreement to the end of the availability period for the Facilities A. The Company also paid a commitment fee of 0.5% per annum based on the undrawn portion of the facilities for all availability period for the Facilities B.

The debt issuance cost of \$3,543 for the Facilities Agreement of 2018 was amortized over the period from December 2018 to December 2021, the termination date of the Facilities Agreement.

The Facilities Agreement contains financial covenants on the Group's equity, debt and interest coverage ratio, and also includes acceleration clauses that are triggered upon the occurrence of an event of default. As of May 31, 2020, the Group is in compliance with its covenant.

As of May 31, 2020, the Group had made US\$55,000, US\$45,000 and US\$20,000 draw down of the loans under the Facilities A and Facilities B.

	As of May 31,	
	2019	2020
	US\$	US\$
Secured Bank Loan	96,457	117,881
The carrying amounts of bank loans are repayable:		
Within a period of more than one year but not exceeding two years	—	117,881
Within a period of more than two years but not exceeding five years	96,457	—

15. REDEEMABLE NON-CONTROLLING INTERESTES

On April 24, 2018, Koolearn Holding entered into a preferred share purchase agreements with a group of investors to issue an aggregate of 64,396,251 Series B convertible redeemable participating preferred shares ("Series B") for an aggregate consideration of US\$92,699. On May 17, 2018, Koolearn Holding entered into a preferred share purchase agreement with an investor to issue 90,416,181 Series A convertible redeemable participating preferred shares ("Series A") with fair value of US\$113,925.

The transactions were completed in May 2018. After the issuance of Series B and Series A preferred shares, the Group held approximately 68% equity interests in Koolearn Holding on a fully-diluted basis.

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The Group classified Series B and Series A preferred shares as mezzanine equity since they are contingently redeemable at any time after December 31, 2019 by the holders in the event that (i) a qualified initial public offering (“QIPO”) has not occurred, or (ii) any material violation of applicable laws, or (iii) material breach of representations, warranties, undertaking or other obligations by Koolearn Holding’s group entities or shareholders, or (iv) at any time any other preferred shareholder requests for redemption. These matters are not certain to occur and are not solely within the control of Koolearn Holding. As of May 31, 2018, the Company determined the redemption is not probable and accordingly, did not adjust the carrying amount of the Series B and Series A preferred shares to the redemption value as Koolearn Holding was in the process of an initial public offering and had made an application for listing its securities on the Stock Exchange of Hong Kong Limited.

In March 2019, Koolearn Holding completed its QIPO in Hong Kong and the Group reclassified the mezzanine equity amounting to US\$206,624 to additional paid-in capital and non-controlling interests.

The key terms of the Series B and Series A preferred shares are summarized as below:

Voting rights

Preferred shareholders have the right to one vote for each ordinary share into which each outstanding preferred share held could then be converted.

Dividends

Each holder of the Series A preferred shares and the Series B preferred shares shall be entitled to receive dividends and distributions from Koolearn Holding. Any dividend available for distribution shall be distributed ratably among all shareholders, on an as-converted basis.

Liquidation preference

In the event of any liquidation, all assets and funds of Koolearn Holding legally available for distribution to the shareholders (the “Liquidation Proceeds”), shall be distributed to the shareholders in the following manners:

- (i) Before any distribution or payment shall be made to the holders of any ordinary shares, the Series A shareholders, the Series B shareholders shall be entitled to receive for each outstanding Series B shares held, the higher of the following: (i) an amount equal to 100% of the Series B issue price, together with a 10% annual compound interest accrued thereon (calculated from the Series B issuance date to the date of the liquidation), plus all declared but unpaid dividends; or (ii) the pro rata share of the Liquidation Proceeds of the Series B shareholders calculated on an as-converted basis.
- (ii) Before any distribution or payment shall be made to the holders of any ordinary shares, each Series A shareholder shall be entitled to receive the higher of the following: (i) an amount equal to 120% of the Series A issue price, plus all declared but unpaid dividends; or (ii) the pro rata share of the Liquidation Proceeds of the Series A shareholders calculated on an as-converted basis.
- (iii) After distribution or payment in full in pursuant to (i) and (ii), the remaining Liquidation Proceeds shall be distributed ratably among the ordinary shareholders of Koolearn Holding in proportion to the number of ordinary shares they held.

Redemption

To the extent permitted by applicable law and upon the occurrence of redemption events as defined in the articles of association of the Company, the Company is contractually obligated to redeem all or part of the issued and outstanding preferred shares upon request.

Conversion

Each preferred share shall automatically be converted into ordinary share of Koolearn Holding based on the then-effective conversion ratio (the “Conversion Price”) applicable to such preferred share (i) upon the approval of Series A shareholders with respect to the conversion of Series A preferred shares, (ii) upon the approval of Series B shareholders with respect to the conversion of the Series B preferred shares, or (iii) immediately prior to the occurrence of a QIPO.

The Conversion Price of the preferred shares was initially the issuance price of the preferred shares at an initial conversion ratio of 1:1, and shall be adjusted from time to time for proportional adjustment (the “Proportional Adjustment”), which means the Conversion Price adjustment in the event that if at any time the number of outstanding ordinary shares proportionately changes.

16. COMMON SHARES AND TREASURY STOCK

As of May 31, 2018, 2019 and 2020, the Company had 300,000,000 common shares authorized with par value of US\$0.01.

The movement of the outstanding common shares and treasury stock is listed as below.

	Number of common share	Number of treasury stock
Shares outstanding as of June 1, 2017	157,687,444	691,943
Reissuance of treasury stock for NES	631,966	(631,966)
Reissuance of treasury stock for the exercises of options	500	(500)
Shares outstanding as of May 31, 2018	158,319,910	59,477
Reissuance of treasury stock for NES	59,477	(59,477)
Issuance of common share for NES	422,327	—
Shares repurchase	(952,000)	952,000
Shares outstanding as of May 31, 2019	157,849,714	952,000
Reissuance of treasury stock for NES	690,366	(690,366)
Shares outstanding as of May 31, 2020	158,540,080	261,634

17. SHARE-BASED COMPENSATION

2016 Share Incentive Plan

The Company adopted 2016 Share Incentive Plan (“2016 Share Incentive Plan”) in January 2016 to provide incentives to employees and directors after the expiration of the previous 2006 Share Incentive Plan. Under the 2016 Share Incentive Plan, the Company is authorized to issue up to 10,000,000 common shares pursuant to awards (including options) granted to its employees, directors and consultants. The 2016 Share Incentive Plan is effective upon its adoption by the board and continue in effect for a term of ten years unless sooner terminated. Since the adoption of the 2016 Share Incentive Plan, the Company has granted a total of 3,132,665 NES, among which 1,485,630, 1,029,304 and 181,715 were granted in the years ended May 31, 2018, 2019 and 2020, respectively. 47,006, 77,224 and 143,744 shares were forfeited during the years ended May 31, 2018, 2019 and 2020, respectively.

The Company’s board of directors may at any time amend, suspend or terminate the 2016 Share Incentive Plan. The following amendments to the 2016 Share Incentive Plan require approval from the shareholders (i) increase of the number of shares available under the 2016 Share Incentive Plan, (ii) extension of the term of the 2016 Share Incentive Plan, (iii) extension of the exercise period of an option beyond ten years, and (iv) any other amendments about which shareholders’ approval are necessary and desirable under applicable laws or stock exchange rules. The 2016 Share Incentive Plan is effective upon its adoption by the board and continue in effect for a term of ten years unless sooner terminated.

As of May 31, 2019, all options were fully vested and exercised.

The total intrinsic value of share options exercised during the years ended May 31, 2018, 2019 and 2020 were US\$38, nil and nil, respectively. As of May 31, 2020, there were no unrecognized compensation expenses related to share options granted.

As of May 31, 2020, 11,285,510 common shares out of 17,000,000 common shares were held by the depositary bank, and 2,257,092 shares out of 6,198,349 treasury stock had been issued to employees and directors upon the exercise of their vested share options.

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The exercise price of share options is at least 100% of the common share fair value on the date of the grant. The term of a share option is up to ten years from the date of grant. The share options generally vest over three years at six-month vesting increments per year.

NES

During the year ended May 31, 2020, 690,366 treasury stock had been issued to employees and directors upon the vesting of their NES. As of May 31, 2020, 5,136,817 common shares out of 17,000,000 common shares held by the depositary bank had been issued to employees and directors upon the vesting of their NES, and 3,679,623 shares out of 6,198,349 treasury stock had been reissued to employees and directors upon the vesting of their NES.

The NES activities under the 2016 Share Incentive Plan for the year ended May 31, 2020 are summarized as follows:

	Number of NES	Weighted- average grant date fair value and intrinsic value US\$
NES outstanding as of June 1, 2019	1,908,900	66.89
Granted	181,715	0
Vested	(690,366)	0
Forfeited	(143,744)	0
NES outstanding as of May 31, 2020	<u>1,256,505</u>	<u>70.73</u>
NES vested and expect to vest as of May 31, 2020	<u>1,256,505</u>	

The total fair value of NES vested during the years ended May 31, 2018, 2019 and 2020 were US\$24,167, US\$39,869 and US\$49,645, respectively. The weighted average grant date fair value of NES granted during the years ended May 31, 2018, 2019 and 2020 were US\$82.75, US\$52.75 and US\$108.38, respectively. As of May 31, 2020, the total unrecognized compensation expenses for NES of US\$20,404 are expected to be recognized over a weighted average period of 0.92 years.

The total compensation expenses are recognized on a straight-line basis over the respective vesting periods. The Group recorded the related compensation expenses of US\$57,443, US\$63,315 and US\$41,326 for the years ended May 31, 2018, 2019 and 2020, respectively.

Koolearn Pre-IPO Share Option Scheme

On July 13, 2018, the board of directors of Koolearn Holding approved an employee's share option plan (the "Pre-IPO Share Option Scheme"). The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pre-IPO Share Option Scheme at any time must not exceed 47,836,985 (representing approximately 5.23% of the total number of shares in issue immediately before the date of the commencement of dealings in the shares on the Stock Exchange (without taking into account any shares that may be issued upon the Listing and any over-allotment option).

On March 7, 2019, pursuant to the list of grantees and respective numbers of options approved by the board of directors of Koolearn Holding, Koolearn Holding granted a total of 47,836,985 options to 144 grantees, including the directors, senior management of Koolearn Holding, contractors and other employees of the Group. The exercise period is 6 years from the listing date of Koolearn Holding and the exercise price is US\$1.13.

The movements of share options under the Pre-IPO Share Option Scheme for the years ended May 31, 2019 and 2020 are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Granted on March 7, 2019	47,836,985	1.13
Forfeited	(3,065,500)	1.13
Cancelled	(31,000)	1.13
Outstanding as of May 31, 2019	<u>44,740,485</u>	<u>1.13</u>
Forfeited	(2,360,000)	1.13
Cancelled	(3,129,000)	1.13
Outstanding as of May 31, 2020	<u>39,251,485</u>	<u>1.13</u>

The grant date fair value of the option per share is US\$0.52 and the estimated fair value of the share options granted was US\$21,613 on March 7, 2019.

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The Group used the discounted cash flow method to determine the fair value of underlying ordinary shares of Koolearn Holding with the assistance of an independent valuation specialist. Based on the fair value of the underlying ordinary shares of Koolearn Holding, the Group used the binomial option-pricing model to determine the fair value of the share option as of the grant date. Option valuation model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying shares, and changes in the subjective input assumptions can materially affect the fair value estimate of share options.

	March 7, 2019 Pre-IPO Share Option Scheme	
Weighted average share price	US\$	1.19
Exercise price	US\$	1.13
Expected volatility		46.8%
Expected life		6 years
Risk-free rate		2.49%
Expected dividend yield		0.00%

Koolearn Holding recorded the related compensation expense of US\$8,021 and US\$ 8,391 for the years ended May 31, 2019 and 2020, respectively, in relation to the share options issued under the Pre-IPO Share Option Scheme.

Koolearn Post-IPO Share Option Scheme

On January 30, 2019, the board of directors of Koolearn Holding approved an employee's share option plan (the "Post-IPO Share Option Scheme").

On January 29, 2020, pursuant to the list of grantees and respective numbers of options approved by the board of directors of Koolearn Holding, Koolearn Holding granted a total of 40,000,000 options to 552 grantees, including the directors, senior management and other employees of Koolearn Holding.

The movements of share options under the Post-IPO Share Option Scheme are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Granted on January 29, 2020	40,000,000	3.26
Forfeited	(1,801,000)	3.26
Outstanding as of May 31, 2020	38,199,000	3.26

Koolearn Holding has used the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date as the fair value of underlying ordinary shares of Koolearn Holding. Based on the fair value of the underlying ordinary shares of Koolearn Holding, Koolearn Holding has used binomial option-pricing model to determine the fair value of the share option as of the grant date with the assistance of an independent valuation specialist. Option valuation model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying shares, and changes in the subjective input assumptions can materially affect the fair value estimate of share options.

	January 29, 2020 Post-IPO Share Option Scheme	
Weighted average share price	US\$	3.49
Exercise price	US\$	3.26
Expected volatility		52%
Expected life		10 years
Risk-free rate		1.44%
Expected dividend yield		0.00%

Koolearn Holding recognized the total expense of US\$12,340 for the year ended May 31, 2020 in relation to the Post-IPO Share Option Scheme.

18. INCOME TAXES

Cayman Islands & BVI

The Company and Koolearn Holding are tax-exempted companies incorporated in the Cayman Islands. Under the current law of the Cayman Islands, the Company and Koolearn Holding are not subject to income, corporate or capital gains tax, and the Cayman Islands currently have no form of estate duty, inheritance tax or gift tax. In addition, payments of dividends and capital in respect of their shares are not subject to taxation and no withholding will be required in the Cayman Islands on the payment of any dividend or capital to any holder of their shares, nor will gains derived from the disposal of their shares be subject to the Cayman Islands income or corporation tax.

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The Company's subsidiary, Abundant State Limited, is incorporated in BVI and is not subject to income tax.

United States ("US")

Walkite International Academy (U.S.A.) Co., Ltd. and Blingabc Limited are incorporated in the U.S.A. and are subject to federal income tax and state income tax at 21% and 8.84%, respectively.

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code including, but not limited to, (1) reducing the U.S. federal corporate tax rate, (2) requiring a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years, and (3) bonus depreciation that will allow for full expensing of qualified property. The impact of the Tax Act is not material to the Group's operation and resulted in a decrease in income tax rate from 35% before January 1, 2018 to 21% after January 1, 2018 for tax and income earned as determined in accordance with the relevant tax rules and regulations.

United Kingdom ("UK")

Walkite International Academy Co., Ltd. and New Oriental Vision Overseas Consulting (U.K.) Ltd are incorporated in the UK and are subject to income tax rate at 19%.

Australia

New Oriental Vision Overseas Consulting Australia Pty Ltd. is incorporated in Australia and is subject to income tax rate at 30%.

Canada

Walkite International Academy (Canada) Co., Ltd and New Oriental Vision Overseas Consulting Canada Inc. is incorporated in Canada and is subject to income tax rate at 26.5%.

Hong Kong

Smart Shine, Winner Park, Elite Concept, One World Limited, Garden House Limited, Koolearn Tech and Asia Pacific are incorporated in Hong Kong. Under the current Hong Kong Inland Revenue Ordinance, from the year of assessment 2018/2019 onwards, the subsidiaries in Hong Kong are subject to profits tax at the rate of 8.25% on assessable profits up to HK\$2 million; and 16.5% on any part of assessable profits over HK\$2 million. Elite Concept and Smart Shine received special dividend of US\$69,567, US\$43,420 and US\$59,696 during the years ended May 31, 2018, 2019 and 2020, respectively. Withholding taxes of US\$6,957, US\$2,171 and US\$ 3,062 in connection with the dividends were fully paid during the years ended May 31, 2018, 2019 and 2020, respectively. No provision in Winner Park, One World Limited, Garden House Limited, Koolearn Tech and Asia Pacific for Hong Kong profit tax has been made in the consolidated financial statements as they do not have any assessable income for the years ended May 31, 2018, 2019 and 2020.

PRC

The Company's PRC subsidiaries, the VIEs, the VIE's subsidiaries and schools are subject to 25% standard enterprise income tax except for those accepted as qualified for small-scale enterprises, or granted preferential tax treatment.

Significant components of provision for income taxes for the years ended May 31, 2018, 2019 and 2020 were as follows:

	For the years ended May 31,		
	2018 US\$	2019 US\$	2020 US\$
Current:			
PRC	72,785	103,031	142,992
Deferred:			
PRC	(13,377)	(17,317)	(8,630)
Total provision for income taxes	59,408	85,714	134,362

Enterprises that qualify as a high and new technology enterprise ("HNTE") are subject to a tax rate of 15%. Beijing Right Time, Beijing Joy Trend, Beijing Decision, Beijing Hewstone and Xuncheng's HNTE certificates terminated as of December 31, 2019, and these enterprises are in the process of renewing their qualification of "high and new technology enterprises." Once their renewals are completed, these companies will be eligible for a favorable enterprise income tax rate of 15% starting January 1, 2020. Beijing Smart Wood, Beijing Pioneer, Beijing Top, Beijing Shenghe, Dogwood and Kuxue Huisi continued to qualify as HNTE and were subject to a tax rate of 15% during the year ended May 31, 2020.

Enterprises that qualify as the newly established software enterprise ("NESE") are exempt from the Enterprise Income Tax ("EIT") for two years beginning the enterprise's first profitable year followed by a tax rate of 12.5% for the succeeding three years. Beijing Magnificence, Beijing Jinghong, Beijing Zhiyuan Hangcheng Software Technology Company Limited, Beijing Chuangying Oriental Technology Co., Ltd and Beijing Zhihong Oriental Technology Co., Ltd were qualified as NESE and enjoyed the EIT tax benefit from January 2015 to December 2019, from January 2017 to December 2021, from January 2019 to December 2023, from January 2019 to December 2023, and from January 2019 to December 2023, respectively.

Beijing Magnificence has been recognized as HNTE in December 2019. This company is entitled to enjoy the tax rate of 15% since January 1, 2020.

Since its establishment through May 31, 2020, Beijing Haidian School was not required by the governing tax bureau to pay any EIT. If Beijing Haidian School is required to pay EIT in the future, this could have material impact to the Group's consolidated financial statements. However, the Group believes that it is more likely than not that any change to the tax treatment of Beijing Haidian School shall be prospectively applied.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Group's deferred tax assets and liabilities were as follows:

	As of May 31,		
	2018 US\$	2019 US\$	2020 US\$
Deferred tax assets			
Allowance doubtful accounts	1,965	3,523	4,677
Accrued expenses	32,253	43,212	55,172
Net operating loss carry-forward	14,611	22,299	43,049
Tax impact from the long term investments disposed to a related party	—	1,521	1,521
Total deferred tax assets	48,829	70,555	104,419
Less: valuation allowance	(5,506)	(9,088)	(41,095)
Total deferred tax assets, net	43,323	61,467	63,324
Deferred tax liabilities			
Acquired assets	3,308	5,038	3,598
Tax impact from the unrealized gain on available-for-sale investments	8,825	13,743	8,308
Total deferred tax liabilities	12,133	18,781	11,906

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The Group does not file combined or consolidated tax returns, therefore, losses from individual subsidiaries or the VIEs may not be used to offset other subsidiaries' earnings within the Group.

The Group determined the valuation allowance on an entity by entity basis. The valuation allowance, which is primarily related to entities with net operating loss carry-forwards for which the Company does not believe it will ultimately be realized, was US\$5,506 US\$9,088 and US\$41,095 as of May 31, 2018, 2019 and 2020, respectively.

As of May 31, 2020, the Group had net operating loss carried-forwards of US\$202,077 from the Company's PRC subsidiaries, the VIEs, the VIE's subsidiaries and schools which will expire on various dates from May 31, 2021 to May 31, 2025.

A reconciliation of the effective tax rates from 25% statutory tax rates for the years ended May 31, 2018, 2019 and 2020 was as follows:

	For the years ended May 31,		
	2018	2019	2020
	%	%	%
Statutory tax rate	25.00	25.00	25.00
Effect of not deductible expenses for tax purposes	4.35	16.70	5.93
Tax effect of exempt entities	(8.10)	(6.91)	(5.50)
Effect of tax holiday	(5.70)	(9.73)	(5.13)
Changes in valuation allowance	0.43	1.13	6.53
Effect of dividend withholding tax	0.66	0.77	0.63
Effective tax rate	16.64	26.96	27.46

If the WFOE and certain subsidiaries and schools of the VIEs did not enjoy income tax exemptions and preferential tax rates for the years ended May 31, 2018, 2019 and 2020, the increase in income tax expenses and the decrease in net income per share amounts would be as follows:

	For the years ended May 31,		
	2018	2019	2020
	US\$	US\$	US\$
Increase in income tax expenses	48,444	51,002	50,809
Decrease in net income per share - basic	0.31	0.32	0.32
Decrease in net income per share - diluted	0.31	0.32	0.32

Under the New Income Tax Law effective from January 1, 2008, the rules for determining whether an entity is resident in the PRC for tax purposes have changed and the determination of residence depends among other things on the "place of actual management". If the Group, or its non-PRC subsidiaries, were to be determined as a PRC resident for tax purposes, they would be subject to a 25% income tax rate on their worldwide income including the income arising in jurisdictions outside the PRC. The Group does not believe that its legal entities organized outside of the PRC are considered the PRC residents.

If the Company were to be a non-resident for the PRC tax purposes, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by the PRC schools and subsidiaries to their foreign investors, the withholding tax would be 10%, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. During the year ended May 31, 2018, Beijing Hewstone, Shanghai Smart Words, Beijing Smart Wood and Beijing Pioneer paid US\$6,957 withholding tax when they paid a special dividend to their parent companies, Elite Concept and Smart Shine. In November 2018, Elite Concept started to enjoy a preferential tax rate of 5% under tax treaty treatment. During the year ended May 31, 2019, Beijing Decision paid US\$2,171 withholding tax when they paid a special dividend to Elite Concept. During the year ended May 31, 2020, Beijing Decision, Beijing Hewstone, Beijing Right Time, Beijing Top and Beijing Magnificence paid US\$3,062 withholding tax when they paid a special dividend to Elite Concept.

Aggregate undistributed earnings of the Company's PRC subsidiaries and the VIEs that are available for distribution were US\$1,819,317 US\$1,972,912 and US\$2,279,550 as of May 31, 2018, 2019 and 2020, respectively. Upon distribution of such earnings, the Company will be subject to the PRC EIT, the amount of which is impractical to estimate. The Company did not record any withholding tax on any of the aforementioned undistributed earnings because the relevant subsidiaries and the VIEs do not intend to declare dividends and the Company intends to permanently reinvest it within the PRC. Additionally, no deferred tax liabilities were recorded for taxable temporary differences attributable to the undistributed earnings because the Company believes the undistributed earnings can be distributed in a manner that would not be subject to income tax.

The Group did not identify any significant unrecognized tax benefits for the years ended May 31, 2018, 2019 and 2020. The Group did not incur any significant interest and penalties related to potential underpaid income tax expenses and also does not anticipate any significant increases or decreases in unrecognized tax benefits in the next twelve months. The Group has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future periods.

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According to the PRC Tax Administration and Collection Law, the tax authority may require the taxpayer or the withholding agent to make delinquent tax payment within three years if the underpayment of taxes is resulted from the tax authority's act or error. No late payment surcharge will be assessed under such circumstances. The statute of limitation will be three years if the underpayment of taxes is due to the computational errors made by the taxpayer or the withholding agent. Late payment surcharge will be assessed in such case. The statute of limitation will be extended to five years under special circumstances which are not clearly defined (but an underpayment of tax liability exceeding US\$16 (RMB0.1 million) is specifically listed as a "special circumstance"). The statute of limitation for transfer pricing related issue is ten years. There is no statute of limitation in the case of tax evasion. Therefore, the Group's PRC domiciled entities are subject to examination by the PRC tax authorities based on the above.

19. NET INCOME PER SHARE

The computation of basic and diluted net income per common share for the years ended May 31, 2018, 2019 and 2020 was as follows:

	For the years ended May 31,		
	2018 US\$	2019 US\$	2020 US\$
Numerator:			
Net income attributable to New Oriental Education & Technology Group Inc.'s shareholders	296,130	238,065	413,333
Net income available for future distribution	296,130	238,065	413,333
Denominator			
Weighted average common shares outstanding-basic	158,168,794	158,293,890	158,429,576
Plus: incremental weighted average common shares from assumed vesting of NES using the treasury stock method	387,706	745,455	1,107,314
Weighted average common shares outstanding-diluted	158,556,500	159,039,345	159,536,890
Net income per common share			
- Basic	1.87	1.50	2.61
- Diluted	1.87	1.50	2.59

There was no employee share options included from the dilutive share calculation for the years ended May 31, 2018, 2019 and 2020 due to anti-dilutive effects.

20. RELATED-PARTIES TRANSACTIONS

The Group had the following balances and transactions with related parties:

(a) Balances:

	Notes	Relationship	Amounts due from related parties, current As of May 31,			Amounts due to related parties, current As of May 31,		
			2018 US\$	2019 US\$	2020 US\$	2018 US\$	2019 US\$	2020 US\$
Metropolis Holding China Limited ("Metropolis")	(1)	Company controlled by Mr. Yu	787	15,581	1,951	—	—	159
Beijing Dianshi Jingwei Technololy Co., Ltd ("Dianshi Jingwei")	(2)	Equity method investee	—	15,211	—	—	—	—
Education Industry Fund		Equity method investee	—	8,692	—	—	—	—
Others	(3)		808	3,160	1,433	30	472	1,431
Total			1,595	42,644	3,384	30	472	1,590

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	Notes	Relationship	Amounts due from related parties, non-current As of May 31,		
			2018 US\$	2019 US\$	2020 US\$
Metropolis	(1)	Company controlled by Mr. Yu	2,226	1,204	1,550
Dianshi Jingwei	(2)	Equity method investee	—	—	21,024
Others	(3)		—	—	135
Total			2,226	1,204	22,709

(b) Transactions:

	Notes	Relationship	Rental expenses For the years ended May 31,		
			2018 US\$	2019 US\$	2020 US\$
Metropolis	(1)	Company controlled by Mr. Yu	7,899	7,888	9,615

	Notes	Relationship	Loans provided to related parties For the years ended May 31,		
			2018 US\$	2019 US\$	2020 US\$
Dianshi Jingwei	(2)	Equity method investee	—	61,155	7,128
Total			—	61,155	7,128

	Notes	Relationship	Revenues For the years ended May 31,		
			2018 US\$	2019 US\$	2020 US\$
Beijing Fishpond Software Technology Co., Ltd. (“Fishpond”)		Equity method investee	—	1,060	438
Others	(4)		92	—	41
Total			92	1,060	479

	Notes	Relationship	Cost For the years ended May 31,		
			2018 US\$	2019 US\$	2020 US\$
EEO		Equity securities without readily determinable fair values investee	—	2,408	3,239
Beijing Dongfang Heli Investment and Development Ltd (“Dongfang Heli”)		Equity method investee	—	1,064	1,700
Others	(4)		—	460	31
Total			—	3,932	4,970

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- (1) Since April 2010, the Group began renting a large portion of a building owned by Metropolis for office space. In March 2012, Metropolis was acquired by a company wholly-owned by Mr. Yu, the Group's executive chairman. As a result, Metropolis became a related party of the Group. As of May 31, 2020, the current and non-current amounts due from Metropolis were US\$1,951 and US\$ 1,550, respectively, which represented prepaid rent related to a short-term lease and deposit for the building. The amount of the rental payments was determined based on the prevailing market rates and was duly approved by the Group's board of directors.
- (2) In April 2016, the Group sold 51% of the equity interest of its fully-owned subsidiary Dianshi Jingwei and Dianshi Jingwei became an equity method investee of the Group. As of May 31, 2020, amounts due from Dianshi Jingwei included five outstanding loans provided by the Group with annual interest rate of 10%. The loans were initially granted in 2018 but were extended several times and recorded as non-current assets as of May 31, 2020. During the year ended of May 31, 2020, no interests were received by the Group. The extended loans were personally guaranteed by Mr. Yu and Mr. Yunhai Jia ("Mr. Jia"), the chief executive officer of Dianshi Jingwei.

According to the loan agreements, if Dianshi Jingwei defaults on the loan payments and interests, the Group has the right to convert the unpaid loans into Dianshi Jingwei's equity. During the year ended of May 31, 2020, Dianshi Jingwei repaid US\$701 to the Group.
- (3) As of May 31, 2018, 2019 and 2020, the balance in "others" included the receivables from and payables to long-term investees.
- (4) As of May 31, 2018, 2019 and 2020, the balance in "others" included the revenue and cost from long-term investees.

21. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of May 31, 2020, the future minimum capital commitments were as follows:

	US\$
	4,148
Capital commitment for the purchase of property and equipment	28,901
Capital commitment for leasehold improvements	<u>33,049</u>

Contingent liabilities

The Group has been named in a number of lawsuits arising in its ordinary course of business. Although the outcome of those lawsuits are uncertain, the Group does not believe the possibility of loss is probable. The Group is unable to estimate a range of loss, if any, that could result if there would be an adverse decision, as such, and the Group has not accrued any liabilities.

22. NON-CONTROLLING INTERESTS

	Non- controlling interests US\$
Balance as of June 1, 2017	39,130
Capital contribution from non-controlling interests and new non-controlling interests recognized in acquisitions	2,015
Capital reduction of non-controlling interests	(28,652)
Dividend declared	(231)
Unrealized gain on available-for-sale investments	164
Foreign currency translation adjustment	2,949
Net income attributed to non-controlling interests	1,107
Balance as of May 31, 2018	16,482
Non-controlling interests arising from acquisitions	288
Purchase of non-controlling interests	(1,696)
Disposal of a subsidiary	80
Capital contribution from non-controlling interests	5,317
Change in non-controlling interests resulting from Koolearn Holding's IPO, net of issuance cost	94,136
Reclassification of redeemable non-controlling interests	60,934
Unrealized gain on available-for-sale investments	465
Foreign currency translation adjustment	(1,376)
Net loss attributed to non-controlling interests	(10,219)
Balance as of May 31, 2019	164,411
Purchase of non-controlling interests	6,675
Capital contribution from non-controlling interests	(39)
Share-based compensation expenses from Koolearn Holding	20,731
Exercise of share options in Koolearn Holding	3,629
Foreign currency translation adjustment	(417)
Net loss attributed to non-controlling interests	(58,474)
Balance as of May 31, 2020	<u>136,516</u>

The effects of changes in the Company's ownership interest on the Company's equity were as follows:

	For the years ended May 31,		
	2018 US\$	2019 US\$	2020 US\$
Net income attribute to New Oriental Education & Technology Group Inc.'s shareholders	296,130	238,065	413,333
Share option gain	—	—	5,752
Decrease in the Group's additional paid-in capital resulting from disposal of a subsidiary	—	(371)	—
(Decrease) increase in the Group's additional paid-in capital resulting from reclassification and capital injection of non-controlling interests	(113,784)	160,871	103
Increase in the Group's additional paid-in capital resulting from the change in non-controlling interests resulting from Koolearn Holding's IPO	—	139,211	—
Decrease in the Group's additional paid-in capital resulting from repurchase shares from non-controlling interests	(63,721)	(15,190)	(20,045)
Changes from net income attributable to New Oriental Education & Technology Group Inc.'s shareholders and transfers to non-controlling interests	<u>118,625</u>	<u>522,586</u>	<u>399,143</u>

23. SEGMENT INFORMATION

The Group's chief operating decision maker has been identified as the Chief Executive Officer who reviews financial information of operating segments based on US GAAP amounts when making decisions about allocating resources and assessing performance of the Group. The Group identified seven operating segments, including K-12 AST, test preparation and other courses (formerly known as language training and test preparation courses), primary and secondary school education, online education, content development and distribution, overseas study consulting services, pre-school education and study tour, for the years ended May 31, 2018, 2019 and 2020. K-12 AST, test preparation and other courses, previously referred as Language training and test preparation, has been identified as a reportable segment. Online education, content development and distribution, overseas study consulting services, pre-school education, primary and secondary school education and study tour operating segments were aggregated as others because individually they do not exceed the 10% quantitative threshold.

The Group primarily operates in the PRC and substantially all of the Group's long-lived assets are located in the PRC.

The Group's chief operating decision maker evaluates performance based on each reporting segment's net revenue, operating cost and expenses, and operating income. Net revenues, operating cost and expenses, operating income, and total assets by segment were as follows:

For the year ended May 31, 2018

	K-12 AST, test preparation and other courses	Others	Consolidated
	US\$	US\$	US\$
Net revenues	2,022,978	424,452	2,447,430
Operating cost and expenses:			
Cost of revenues	(869,012)	(196,728)	(1,065,740)
Selling and marketing	(193,851)	(99,549)	(293,400)
General and administrative	(504,985)	(108,343)	(613,328)
Unallocated corporate expenses	—	—	(212,003)
Total operating cost and expenses	(1,567,848)	(404,620)	(2,184,471)
Operating income	455,130	19,832	262,959
Segment assets	1,898,504	844,691	2,743,195
Unallocated corporate assets	—	—	1,234,517
Total assets	1,898,504	844,691	3,977,712

For the year ended May 31, 2019

	K-12 AST, test preparation and other courses	Others	Consolidated
	US\$	US\$	US\$
Net revenues	2,605,829	490,662	3,096,491
Operating cost and expenses:			
Cost of revenues	(1,128,355)	(247,914)	(1,376,269)
Selling and marketing	(212,170)	(145,228)	(357,398)
General and administrative	(675,315)	(149,193)	(824,508)
Unallocated corporate expenses	—	—	(236,409)
Total operating cost and expenses	(2,015,840)	(542,335)	(2,794,584)
Gain on disposal of a subsidiary	—	—	3,627
Operating income (loss)	589,989	(51,673)	305,534
Segment assets	2,226,344	1,118,884	3,345,228
Unallocated corporate assets	—	—	1,301,331
Total assets	2,226,344	1,118,884	4,646,559

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For the year ended May 31, 2020

	K-12 AST, test preparation and other courses	Others	Consolidated
	US\$	US\$	US\$
Net revenues	<u>3,040,741</u>	<u>537,941</u>	<u>3,578,682</u>
Operating cost and expenses:			
Cost of revenues	(1,304,239)	(284,660)	(1,588,899)
Selling and marketing	(218,739)	(202,733)	(421,472)
General and administrative	(729,125)	(179,349)	(908,474)
Unallocated corporate expenses	—	—	(260,834)
Total operating cost and expenses	<u>(2,252,103)</u>	<u>(666,742)</u>	<u>(3,179,679)</u>
Operating income (loss)	<u>788,638</u>	<u>(128,801)</u>	<u>399,003</u>
Segment assets	<u>3,588,900</u>	<u>1,388,730</u>	<u>4,977,630</u>
Unallocated corporate assets	—	—	<u>1,579,255</u>
Total assets	<u><u>3,588,900</u></u>	<u><u>1,388,730</u></u>	<u><u>6,556,885</u></u>

24. MAINLAND CHINA CONTRIBUTION PLAN

The Group's full time employees in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The total contributions for such employee benefits were US\$129,334, US\$178,057 and US\$217,127 for the years ended May 31, 2018, 2019 and 2020, respectively.

25. STATUTORY RESERVES

Prior to payment of dividends, pursuant to the laws applicable to the PRC's Foreign Investment Enterprises, the Company's subsidiaries and the VIEs in the PRC must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of each company. These reserves include (i) general reserve and (ii) the development fund.

Subject to certain cumulative limits, the general reserve requires annual appropriations of 10% of after-tax profits as determined under the PRC laws and regulations at each year-end until the balance reaches 50% of the PRC entity registered capital; the other reserve appropriations are at the Company's discretion. These reserves can only be used for specific purposes of enterprise expansion and are not distributable as cash dividends. During the years ended May 31, 2018, 2019 and 2020, US\$1,830, US\$1,875 and US\$1,506 were accrued for the general reserve, respectively.

The PRC laws and regulations require private schools that require reasonable returns to make annual appropriations of 25% of after-tax income prior to payments of dividend to its development fund, which is to be used for the construction or maintenance of the school or procurement or upgrading of educational equipment, while in the case of a private school that does not require reasonable return, this amount should be equivalent to no less than 25% of the annual increase of net assets of the school as determined in accordance with generally accepted accounting principles in the PRC. During the years ended May 31, 2018, 2019 and 2020, appropriations to the development fund amounted to US\$41,713, US\$40,136 and US\$73,043, respectively.

These reserves are included as statutory reserves in the consolidated statements of changes in equity and comprehensive income. The Group allocated US\$43,543, US\$42,011 and US\$74,549 to statutory reserves during the years ended May 31, 2018, 2019 and 2020, respectively.

26. RESTRICTED NET ASSETS

Relevant PRC laws and regulations restrict the WFOEs and the VIEs from transferring a portion of their net assets, equivalent to the balance of their statutory reserves and their share capital, to the Company in the form of loans, advances or cash dividends, except in the event of liquidation. The balance of restricted net assets was US\$542,534, US\$472,924 and US\$513,721, of which US\$448,103, US\$437,121 and US\$464,917 was attributed to the paid-in capital, additional paid-in capital and statutory reserves of the VIEs and US\$94,431, US\$35,803 and US\$48,804 was attributed to the paid-in capital, additional paid-in capital and statutory reserves of the WFOEs, as of May 31, 2018, 2019 and 2020, respectively. The WFOEs' accumulated profits may be distributed as dividends to the Company without the consent of a third party. The VIEs' revenues and accumulated profits may be transferred to the Company through contractual arrangements without the consent of a third party. Under applicable PRC law, loans from the PRC companies to their offshore affiliated entities require governmental approval, and advances by the PRC companies to their offshore affiliated entities must be supported by bona fide business transactions.

27. SUBSEQUENT EVENTS

On July 2, 2020, the Company issued US\$300,000 bond due on July 2, 2025 (the "Bond"). The Bond bears interest at a rate of 2.125% per year, payable semiannually in arrears on January 2 and July 2 of each year commencing January 2, 2021. The net proceeds from the Bond, after deducting the issuance costs were \$297,083. The Company has accounted for the Bond as a single instrument and recorded the proceeds, net of the issuance cost, as bond payable.

On September 8, 2020, Koolearn Holding entered into a subscription agreement with the Company and another subscriber, pursuant to which the Company and the another subscriber conditionally agreed to subscribe for, and Koolearn Holding has conditionally agreed to allot and issue 51,680,000 and 7,752,000 new shares, respectively, at the subscription price of US\$ 3.87 per subscription share (corresponding to approximately HK\$30.00 per subscription share), for an aggregate subscription amount of US\$230 million (corresponding to approximately HK\$1,783 million).

COVID-19 has spread rapidly to many parts of China and other parts of the world in the first quarter of calendar year 2020. The epidemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and facilities in China and elsewhere. Substantially all of the Group's revenue and workforce are concentrated in China. Consequently, the COVID-19 outbreak may continue affect the Group's business operations and its financial condition and operating results for fiscal year 2021, including but not limited to negative impact to the Group's total revenues, fair value adjustments or impairment to the Group's long term investments.

Dated July 2, 2020

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

as Issuer

and

DB TRUSTEES (HONG KONG) LIMITED

as Trustee

TRUST DEED

constituting

U.S.\$300,000,000 2.125 per cent. Bonds due 2025

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This Trust Deed is made on July 2, 2020 **between:**

- (1) New Oriental Education & Technology Group Inc. (the “**Issuer**”);
- (2) DB Trustees (Hong Kong) Limited (the “**Trustee**”, which expression, where the context so admits, includes any other trustee for the time being of this Trust Deed including, if applicable, any Successor (as defined below)).

Whereas:

- (A) The Issuer, incorporated in the Cayman Islands with limited liability, has authorised the issue of U.S.\$300,000,000 2.125 per cent. Bonds due 2025 to be constituted by this Trust Deed.
- (B) The Trustee has agreed to act as trustee of this Trust Deed on the following terms and conditions.

This Deed witnesses and it is declared as follows:

1 Interpretation

1.1 Definitions: The following expressions have the following meanings:

“**Agency Agreement**” means the agreement referred to as such in the Conditions, as amended, varied, novated or supplemented from time to time, and includes any other agreements related to it approved in writing by the Trustee appointing Successor Agents or amending, varying, novating or supplementing any such agreements;

“**Agents**” means the Principal Paying Agent, the Registrar, any other Paying Agents and the Transfer Agent or any of them and shall include such other agent or agents as may be appointed from time to time under the Agency Agreement, and references to Agents are to them acting solely through their specified offices;

“**Applicable Law**” means any law or regulation including, but not limited to: (i) any statute or regulation; (ii) any rule or practice of any Authority by which the Issuer is bound or with which it is accustomed to comply; (iii) any agreement between any Authorities; and (iv) any customary agreement between any Authority and any party;

“**Appointee**” means any delegate, agent, nominee or custodian appointed pursuant to the provisions of this Trust Deed;

“**Authority**” means any competent regulatory, prosecuting, tax or governmental authority in any jurisdiction;

“**Bondholder**” means a person in whose name a Bond is registered in the register of Bondholders (or, in the case of joint holders, the first named thereof). For so long as all of the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear and Clearstream, each person who is for the time being shown in the records of Euroclear and Clearstream as entitled to a particular principal amount of such Bonds shall be treated as the holder of such aggregate principal amount of such Bonds (and the expression “**Bondholders**” and references to “**holding of Bonds**” and to “**holder of Bonds**” shall be construed accordingly) for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the holders) other than with respect to the payment of principal, premium (if any) and interest on such Bonds, for which purpose the registered holder of the Global Certificate shall be deemed to be the holder of such principal amount of the Bonds;

“**Bonds**” means the U.S.\$300,000,000 2.125 per cent. Bonds due 2025 of the Issuer which expression shall, if the context so permits, include the Global Certificate representing the Bonds and unless the context requires otherwise, include any further bonds issued in accordance with Condition 13 and consolidated and forming a single series therewith;

“**Business Day**” means a day, other than a Saturday or a Sunday or a public holiday, on which banks are open for business in Beijing, Hong Kong, Singapore, London and New York City;

“**Capital Stock**” has the meaning set out in Condition 4;

“**Certificate**” means a certificate representing one or more Bonds and, save as provided in the Conditions, comprising the entire holding by a Bondholder of his Bonds and, save in the case of the Global Certificate, being substantially in the form set out in Part A of Schedule 1;

“**Clearstream**” means Clearstream Banking S.A.;

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended;

“**Compliance Certificate**” has the meaning set out in Condition 4 and means a certificate substantially in the form set out in Schedule 4;

“**Conditions**” means the terms and conditions which shall be substantially in the form set out in Schedule 2, as modified, with respect to any Bonds represented by the Global Certificate, by the provisions of such Global Certificate and shall be endorsed on the relevant Certificate and any reference to a particularly numbered Condition shall be construed accordingly;

“**Consolidated Affiliated Entity**” of any Person means any corporation, association or other entity which is or is required to be consolidated with such Person under Accounting Standards Codification subtopic 810-10, *Consolidation: Overall* (including any changes, amendments or supplements thereto) or, if such Person prepares its financial statements in accordance with accounting principles other than U.S. GAAP, the equivalent of Accounting Standards Codification subtopic 810-10, *Consolidation: Overall* under such accounting principles. Unless otherwise specified herein, each reference to a Consolidated Affiliated Entity will refer to a Consolidated Affiliated Entity of the Issuer.

“**Controlled Entity**” of any Person means a Subsidiary or a Consolidated Affiliated Entity of such Person;

“**Directors**” means members of the management board, supervisory board or general managers’ meeting of the Issuer from time to time;

“**Euroclear**” means Euroclear Bank SA/NV;

“**Event of Default**” means an event described in Condition 9;

“**Extraordinary Resolution**” has the meaning set out in Schedule 3;

“**FATCA Withholding**” means any withholding or deduction required pursuant to an agreement described in section 1471(b) of the Code, or otherwise imposed pursuant to sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto;

“**FSMA**” means the United Kingdom’s Financial Services and Markets Act 2000;

“Global Certificate” means a Certificate substantially in the form set out in Part A of Schedule 1 representing Bonds that are registered in the name of a nominee of the common depository for Euroclear, Clearstream and/or any other clearing system;

“Hong Kong” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“Hong Kong Business Day” means a day, other than a Saturday or a Sunday or a public holiday, on which banks are open for business in Hong Kong;

“Issuer Audited Financial Reports” means the annual audited consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows of the Issuer and its Controlled Entities together with any statements, reports (including any directors’ and auditors’ reports) and notes attached to or intended to be read with any of them;

“Issuer Quarterly Financial Statements” means the quarterly unaudited consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners’ equity of the Issuer and its Controlled Entities together with any statements, reports and the notes attached to or intended to be read with any of them, if any.

“Issuer Semi-annual Financial Reports” means the semi-annual unaudited but reviewed consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners’ equity of the Issuer and its Controlled Entities together with any statements, reports (including any auditors’ review reports) and the notes attached to or intended to be read with any of them, if any.

“outstanding” means, in relation to the Bonds, all the Bonds issued except (a) those which have been redeemed in accordance with the Conditions, (b) those in respect of which the date for redemption has occurred and the redemption moneys (including all interest accrued on such Bonds to the date for such redemption and any interest payable under the Conditions after such date) have been duly paid to the Trustee or to the Principal Paying Agent as provided in Clause 2 and remain available for payment in accordance with the Conditions, (c) those which have become void or in respect of which claims have become prescribed and (d) those which have been purchased and cancelled as provided in the Conditions, provided that for the purposes of (1) ascertaining the right to attend and vote at any meeting of the Bondholders, (2) the determination of how many and which Bonds are outstanding for the purposes of Conditions 9, 12(a), 12(b) and 14 and Schedule 3 and (3) the exercise of any discretion, power or authority whether contained in this Trust Deed or provided by law, which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Bondholders, those Bonds which are beneficially held by or on behalf of any of the Issuer or any of their respective Subsidiaries and not cancelled shall (unless no longer so held) be deemed not to remain outstanding;

“Paying Agents” means the Principal Paying Agent and any other Paying Agents appointed pursuant to the Agency Agreement, at their respective specified offices, or any Successor Paying Agent;

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity.

“**PRC**” means the People’s Republic of China, which for the purpose of this Trust Deed, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;

“**Principal Controlled Entities**” has the meaning set out in Condition 4;

“**Principal Paying Agent**” means Deutsche Bank AG, Hong Kong Branch at its specified office at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, or any Successor Principal Paying Agent;

“**Rating Agencies**” means (i) Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“**S&P**”); (ii) Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors (“**Moody’s**”); (iii) Fitch Inc., a subsidiary of Fimalac, S.A., and its successors (“**Fitch**”); and (iv) if one or more of S&P, Moody’s or Fitch shall not make a rating of the Bonds publicly available, any United States nationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for S&P, Moody’s or Fitch or any combination thereof, as the case may be.;

“**Registrar**” means Deutsche Bank AG, Hong Kong Branch, or any Successor Registrar; “**Relevant Indebtedness**” has the meaning set out in Condition 4;

“**Relevant Period**” means (a) in relation to the Issuer Audited Financial Reports, each period of twelve months ending on the last day of the Issuer’s financial year (being 31 May of that financial year), (b) in relation to the Issuer Semi-annual Financial Reports, each period of six months ending on the last day of the Issuer’s respective first half financial year (being 30 November of that financial year) and (c) in relation to the Issuer Quarterly Financial Statements, the first and third quarter of the Issuer’s respective financial year (being 1 June to 31 August and 1 December to end of February of that financial year);

“**SEHK**” means The Stock Exchange of Hong Kong Limited;

“**specified office**” means, in relation to an Agent, the office identified with its name at the end of the Conditions or any other office notified in writing to the Trustee and notified to Bondholders pursuant to Clause 6.12;

“**Subsidiary**” has the meaning set out in Condition 4;

“**Successor**” means, in relation to the Agents, such other or further person as may from time to time be appointed by the Issuer as an Agent with the written approval of, and on terms approved in writing by, the Trustee and notice of whose appointment is given to Bondholders pursuant to Clause 6.12;

“**this Trust Deed**” means this Trust Deed (as from time to time amended, varied, novated and/or supplemented in accordance with this Trust Deed) and any other document executed in accordance with this Trust Deed (as from time to time so amended, varied, novated and/or supplemented) and expressed to be supplemental to this Trust Deed;

“**Transfer Agent**” means the Transfer Agent appointed under the Agency Agreement, or any Successor Transfer Agent; and

“**trust corporation**” means a trust corporation (as defined in the Law of Property Act 1925) or a corporation entitled to act as a trustee pursuant to applicable foreign legislation relating to trustees.

- 1.2 Construction of Certain References:** References to:
- 1.2.1** costs, charges, remuneration or expenses include any value added, turnover or similar tax charged in respect thereof;
 - 1.2.2** “U.S.\$” and “U.S. dollar” is to the lawful currency for the time being of the United States;
 - 1.2.3** Clauses are references to Clauses of this Trust Deed unless otherwise stated; and
 - 1.2.4** an action, remedy or method of judicial proceedings for the enforcement of creditors’ rights includes references to the action, remedy or method of judicial proceedings in jurisdictions other than Hong Kong as shall most nearly approximate thereto.
- 1.3 Headings:** Headings shall be ignored in construing this Trust Deed.
- 1.4 Schedules:** The Schedules are part of this Trust Deed and have effect accordingly.
- 1.5 Contracts (Rights of Third Parties) Act 1999:** Except as otherwise provided for in this Trust Deed, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy which exists or is available apart from such Act and is without prejudice to the rights of the Bondholders as contemplated in the Conditions.
- 1.6 The Conditions:** In this Trust Deed, unless the context requires or the same are otherwise defined, words and expressions defined in the Conditions and not otherwise defined herein shall have the same meaning when used in this Trust Deed.
- 1.7 Amended Documents:** Save where the contrary is indicated, any reference in this Trust Deed to any other agreement or document shall be construed as a reference to such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.
- 1.8 Time:** Unless otherwise expressly stated, all references in this Trust Deed, the Conditions and the Agency Agreement to times of the day are to Hong Kong time, and wherever this Trust Deed, the Conditions, the Agency Agreement or any other relevant document contemplates that any action will be taken or any function will be performed by the Trustee, such action or function shall, unless otherwise expressly stated, be taken or performed during business hours on days (other than Saturdays, Sundays and public holidays) on which banks are open for business in Hong Kong.
- 1.9 Statutory Modification:** a provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification of re-enactment.
- 2 Amount of the Bonds and Covenant to Pay**
- 2.1 Amount of the Bonds:** The aggregate principal amount of the Bonds is limited to U.S.\$300,000,000.
- 2.2 Covenant to Pay:** The Issuer will on any date when any Bonds become due to be redeemed unconditionally pay to or to the order of the Trustee in U.S. dollars in same day funds the principal amount of the Bonds becoming due for redemption on that date and will (subject to the Conditions) until such payment (both before and after judgment of a court of competent jurisdiction) unconditionally pay to or to the order of the Trustee interest on the principal amount of the Bonds outstanding as set out in the Conditions provided that (1) subject to the provisions of Clause 2.4, payment of any sum due in respect of the Bonds made to or to the order of the Principal Paying Agent as provided in the Agency Agreement shall, to that extent, satisfy such obligation except to the extent that there is failure in its subsequent payment to the relevant Bondholders under the Conditions and (2) a payment made after the due date or pursuant to Condition 9 will be deemed to have been made when the full amount due has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Bondholders (if required under Clause 6.10), except to the extent that there is failure in its subsequent payment to the relevant Bondholders under the Conditions. The Trustee will hold the benefit of this covenant on trust for the Bondholders.

2.3 Discharge:

Subject to Clause 2.4, any payment to be made in respect of the Bonds by the Issuer or the Trustee may be made as provided in the Conditions and any payment so made will (subject to Clause 2.4) to that extent be a good discharge to the Issuer or the Trustee, as the case may be.

2.4 Payment after a Default: At any time after an Event of Default has occurred the Trustee may:

2.4.1 by notice in writing to the Issuer and the Agents, require the Agents, until notified by the Trustee to the contrary, so far as permitted by applicable law or regulation:

- (i) to act as agents of the Trustee under this Trust Deed and the Bonds on the terms of the Agency Agreement (with consequential amendments as necessary and except that the Trustee's liability for the indemnification, remuneration and expenses of the Agents will be limited to the amounts for the time being held by the Trustee in respect of the Bonds on the terms of this Trust Deed) and thereafter to hold all Bonds and all moneys, documents and records held by them in respect of Bonds to the order of the Trustee; or
- (ii) to deliver all Certificates and all moneys, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee directs in such notice or subsequently (provided that such notice shall not be deemed to apply to any documents and records which the relevant Agent is obligated not to release by any applicable law or regulation); and

2.4.2 by notice in writing to the Issuer, require it to make all subsequent payments in respect of the Bonds to or to the order of the Trustee and not to the Principal Paying Agent with effect from the issue of any such notice to the Issuer; and from then until such notice is withdrawn, the proviso (1) set out in Clause 2.2 above shall cease to have effect.

2.5 Cancellation of Bonds: Within 14 business days of a written request from the Trustee, the Issuer should procure a certificate of cancellation to the Trustee detailing all Bonds redeemed, converted or purchased by the Issuer. The Trustee may accept such certificate as conclusive evidence of redemption, purchase, exchange or replacement *pro tanto* of the Bonds or payment of interest thereon respectively and of cancellation of the relevant Bonds and is entitled to rely upon the certificate with no liability therefor.

3 Form of the Bonds

3.1 The Global Certificate: Upon issue, the Bonds will be evidenced by a Global Certificate in registered form in the principal amount of U.S.\$ 300,000,000 which shall be registered in the name of a nominee for, and deposited with, a common depository for Euroclear and Clearstream and will be exchangeable for individual Certificates only in the circumstances set out in the Conditions.

- 3.2 Form of Certificates:** The Certificates in definitive form, if issued, will be printed in accordance with applicable legal and stock exchange requirements and will be substantially in the form set out in Part B of Schedule 1 and endorsed with the Conditions.
- 3.3 Status:** The Bonds are direct, unsubordinated, unconditional and unsecured obligations of the Issuer and will at all times rank pari passu without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and regulations, and subject to the Conditions, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
- 3.4 Signature:** The Bonds shall be signed manually or in facsimile by a Director of the Issuer duly authorised for the purpose or by a duly authorised attorney of the Issuer. Certificates shall be authenticated manually by or on behalf of the Registrar. Bonds represented by Certificates (including the Global Certificate) so executed and authenticated will be binding and valid obligations of the Issuer. In relation to Certificates in definitive form only, the Issuer may use a facsimile signature of a person who at the date of this Trust Deed is such a Director or duly authorised attorney even if at the issue of any Bonds he no longer holds that office.

4 Stamp Duties and Taxes

- 4.1 Stamp Duties:** The Issuer will pay any stamp, issue, registration, documentary, transfer or other similar taxes and duties, assessments or government charges, including interest and penalties thereon or in connection therewith, payable in Cayman Islands, Hong Kong, PRC or any other jurisdiction in which the Issuer is incorporated or resident for tax purposes or any political subdivision or authority therein or thereof having power to tax in respect of the creation, issue, offering, execution or enforcement of the Bonds, and the execution or delivery of this Trust Deed, the Agency Agreement or the Bonds. The Trustee shall not be liable to pay any such taxes, duties, assessments or government charges payable in the aforementioned jurisdictions and shall not be concerned with, or obligated or required to enquire into, the sufficiency of any amount paid by the Issuer for this purpose and shall not be liable for any losses as a result of any non-payment by the Issuer of any such taxes, duties, assessments or government charges. The Issuer will also indemnify the Trustee and the Bondholders from and against all stamp, issue, registration, transfer, documentary or other similar taxes, duties, assessments or government charges paid by any of them in any jurisdiction in connection with any action taken by or on behalf of the Trustee or, as the case may be, the Bondholders to enforce the Issuer's obligations under this Trust Deed, the Agency Agreement or the Bonds.
- 4.2 Change of Taxing Jurisdiction:** If the Issuer becomes subject generally to the taxing jurisdiction of a territory or a taxing authority of or in that territory with power to tax other than or in addition to Cayman Islands, Hong Kong or the PRC any such authority of or in such territory then the Issuer will notify the Trustee as soon as practicable after it becomes aware and (unless the Trustee agrees otherwise) give the Trustee an undertaking satisfactory to the Trustee in terms corresponding to the terms of Condition 8 with the substitution for, or (as the case may require) the addition to, the references in that Condition to Cayman Islands, Hong Kong or the PRC or references to that other or additional territory or authority to whose taxing jurisdiction the Issuer has become so subject. In such event this Trust Deed and the Bonds will be read accordingly.

5 Application of Moneys Received by the Trustee

5.1 Declaration of Trust: All moneys received by the Trustee in respect of the Bonds or amounts payable under this Trust Deed will, despite any appropriation of all or part of them by the Issuer, be held by the Trustee on trust to apply them (subject to Clause 5.2):

- 5.1.1 first, in payment or satisfaction of all fees, costs, charges and, expenses properly incurred and liabilities incurred by the Trustee and its Appointees (including without limitation remuneration payable to any of them) in carrying out its functions and/or exercising its rights, powers and discretions under this Trust Deed, the Agency Agreement and the Bonds;
- 5.1.2 secondly, in payment or satisfaction of all fees, costs, charges, expenses and liabilities properly incurred by each Agent in carrying out its duties, discretions or functions under or in connection with the Agency Agreement and all other amounts payable to the Agents under or in connection with this Trust Deed or in connection with the Bonds but unpaid;
- 5.1.3 thirdly, in payment of any amounts owing in respect of the Bonds *pari passu* and rateably;
- 5.1.4 fourthly, payment of any amounts due and payable (if any) to the Agents under the Agency Agreement but unpaid; and
- 5.1.5 fifthly, in payment of any balance to the Issuer.

If the Trustee holds any moneys in respect of Bonds which have become void or in respect of which claims have become prescribed, the Trustee will hold them on these trusts.

5.2 Accumulation: If the amount of the moneys at any time available for the payment of principal, premium (if any) and interest in respect of the Bonds under Clause 5.1 shall be less than 10 per cent. of the principal amount of the Bonds then outstanding the Trustee may at its sole discretion place the same on deposit into an account bearing a market rate interest (and for the avoidance of doubt, the Trustee shall not be required to obtain best rates or exercise any other form of investment discretion with respect to such deposits) in the name or under the control of the Trustee at such bank or other financial institution and in such currency as the Trustee may think fit in light of the cash needs of the transaction and not for purposes of generating income. The Trustee may at any time convert any moneys so deposited into any other currency and shall not be responsible for any loss resulting from any such deposits, whether due to depreciation in value, fluctuations in exchange rates or otherwise, unless such loss results from the Trustee's gross negligence, willful default or fraud. The Trustee may at its discretion accumulate such moneys until the accumulations, together with any other funds for the time being under the control of the Trustee and available for such purpose, amount to at least 10 per cent. of the principal amount of the Bonds then outstanding and then such accumulations and funds (after deduction of, or provision for, any applicable taxes) shall be applied under Clause 5.1. For the avoidance of doubt, the Trustee shall in no circumstances, have any discretion to invest any moneys referred to in this Clause 5.2 in eligible investments or otherwise.

5.3 Investment: If the Trustee elects to place moneys held by it on deposit in accordance with Clause 5.2 into a that bank or institution and that bank or institution is the Trustee or a subsidiary, affiliate, holding or associated company of the Trustee, it need only account for an amount of interest equal to the amount of interest which would, at the then current rates, be payable by it on such a deposit to an independent customer. The Trustee may at any time vary or transpose any such account into any other currency, and will not be responsible for any resulting loss from any such investments or deposits, whether by depreciation in value, change in exchange rates or interest rates or otherwise and shall not be liable for obtaining a return thereon which is less than the return which may have been obtained if the relevant investment was made in another form and/or with another institution.

6 Covenants

So long as any Bond is outstanding (unless provided otherwise below):

- 6.1 Negative Pledge:** So long as any Bond remains outstanding, the Issuer will not and will ensure that none of its Principal Controlled Entities will, create, or have outstanding, any Lien upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness either of the Issuer or of any of its Principal Controlled Entities, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto (i) according to the Bonds equally and ratably the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (ii) such other security as shall be approved by an Extraordinary Resolution of the Bondholders.

The foregoing restriction will not apply to:

- 6.1.1** any Lien arising or already arisen automatically by operation of law which is timely discharged or disputed in good faith by appropriate proceedings;
- 6.1.2** any Lien in respect of the obligations of any Person which becomes a Principal Controlled Entity or which merges with or into the Issuer or a Principal Controlled Entity after the date of the Trust Deed which is in existence at the date on which it becomes a Principal Controlled Entity or merges with or into us or a Principal Controlled Entity; provided that any such Lien was not incurred in anticipation of such acquisition or of such Person becoming a Principal Controlled Entity or being merged with or into the Issuer or a Principal Controlled Entity;
- 6.1.3** any Lien created or outstanding in favor of the Issuer;
- 6.1.4** any Lien in respect of Relevant Indebtedness of the Issuer or any Principal Controlled Entity with respect to which the Issuer or such Principal Controlled Entity has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Issuer or such Principal Controlled Entity in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full);
- 6.1.5** any Lien created in connection with Relevant Indebtedness of the Issuer or any Principal Controlled Entity denominated in RMB and initially offered, marketed or issued primarily to Persons resident in the PRC;
- 6.1.6** any Lien created in connection with a project financed with, or created to secure, Non-recourse Obligations; or
- 6.1.7** any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by the foregoing clause 6.1.2 or clause 6.1.6; provided that such Relevant Indebtedness is not increased beyond the principal amount thereof (together with the costs of such refinancing, extension, renewal or refunding) and is not secured by any additional property or assets (other than improvements, additions and appurtenances thereto).

- 6.2 Financial Statements and Notices of Default:** So long as any Bond remains outstanding (as defined in this Trust Deed), the Issuer shall make available to the Trustee, as soon as they are available but in any event not more than 30 calendar days after any financial or other reports of the Issuer are filed with the New York Stock Exchange, or if the Issuer's Capital Stock is no longer listed on the New York Stock Exchange, any other recognised exchange on which the Issuer's Capital Stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange; provided that if at any time the Capital Stock of the Issuer ceases to be listed for trading on a recognised stock exchange, the Issuer shall send to the Trustee:
- 6.2.1** as soon as practicable after they are available and in any event not more than 120 calendar days after the end of each Relevant Period, two copies of the Issuer Audited Financial Reports (audited by an internationally or nationally recognised firm of independent accountants), and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally or nationally recognised firm of independent accountants or (B) a professional translation service provider and checked by an internationally or nationally recognised firm of independent accountants, together with a certificate signed by a director or duly authorised officer of the Issuer certifying that such translation is complete and accurate; and
- 6.2.2** as soon as practicable after they are available and in any event not more than 90 calendar days after the end of each Relevant Period, two copies of the Issuer Unaudited Financial Reports (reviewed by an internationally or nationally recognised firm of independent accountants) prepared on a basis consistent with Issuer Audited Financial Reports, and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally or nationally recognised firm of independent accountants or (B) a professional translation service provider and checked by an internationally or nationally recognised firm of independent accountants together with a certificate signed by a director or duly authorised officer of the Issuer certifying that such translation is complete and accurate; and
- 6.2.3** as soon as practicable after they are available and in any event not more than 60 calendar days after the end of each Relevant Period, two copies of the Issuer Quarterly Financial Statements prepared on a basis consistent with Issuer Audited Financial Reports, and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally or nationally recognised firm of independent accountants or (B) a professional translation service provider and checked by an internationally or nationally recognised firm of independent accountants together with a certificate signed by a director or duly authorised officer of the Issuer certifying that such translation is complete and accurate.

In addition, so long as any Bond remains outstanding (as defined in this Trust Deed), the Issuer will provide to the Trustee within 120 calendar days after the close of each fiscal year ending after the Issue Date and within 14 days of any request therefor from the Trustee, a Compliance Certificate of the Issuer (on which the Trustee may rely conclusively as to such compliance and shall not be liable to any Bondholder or any other person for such reliance), substantially in the form set out in Schedule 4.

So long as any of the Bonds remain outstanding (as defined in this Trust Deed), the Issuer will file with the Trustee, as soon as possible and in any event within 10 calendar days after the Issuer becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and a director's certificate of the Issuer setting forth the details thereof and the action the Issuer is taking or proposes to take with respect thereto.

6.3 NDRC Registration:

- 6.3.1** the Issuer undertakes to file or cause to be filed with the NDRC the requisite information and documents within the timeframe prescribed by the NDRC after the Issue Date (as defined under Condition 5) in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044 號)) issued by the NDRC and which came into effect on 14 September 2015, the Approval of Foreign Debt Quota Administration Reform Trial Enterprise (Second Batch) for 2017 issued by the NDRC on March 22, 2017, and any implementation rules as issued by the NDRC from time to time (the “**NDRC Post-issue Filing**”). The Issuer will notify the Trustee if it does not file or cause to be filed such documents within this timeframe and such notification to the Trustee will be made within 10 PRC Business Days after such failure to complete the NDRC Post-issue Filing.
- 6.3.2** the Issuer shall within 10 PRC Business Days after submission of such NDRC Post-issue Filing provide the Trustee with a copy of the document(s) evidencing due filing with the NDRC. The Trustee shall have no obligation or duty to monitor and ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to the Bondholders or any other person for not doing so.

6.4 Consolidation, Merger and Sale of Assets:

the Issuer shall not consolidate with or merge into any other Person in a transaction in which the Issuer is not the surviving entity, or convey, transfer or lease its properties and assets substantially as an entirety to, any Person unless:

- 6.4.1** any Person formed by such consolidation or into which the Issuer is merged or to whom the Issuer has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the Cayman Islands, British Virgin Islands or Hong Kong and such Person expressly assumes by supplemental trust deeds all of the Issuer’s obligations under the Trust Deed, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes;
- 6.4.2** immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and
- 6.4.3** the Issuer has delivered to the Trustee an officers’ certificate and an opinion of external legal counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental trust deeds comply with the Trust Deed and that all conditions precedent therein provided for relating to such transaction have been complied with.

- 6.5 Books of Account:** keep, and procure that each of its Controlled Entities keeps, proper books of account and, so far as permitted by applicable law, rules, regulations or orders issued by any regulatory authorities having competent jurisdiction over the Issuer, allow, and procure that each such Controlled Entity will allow the Trustee and anyone appointed by it access to its books of account at all reasonable times during normal business hours;

- 6.6 Notice of Events of Defaults:** file with the Trustee, as soon as possible and in any event within 10 calendar days after the Issuer becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and a director's certificate of the Issuer setting forth the details thereof and the action the Issuer is taking or proposes to take with respect thereto;
- 6.7 Information:** the Issuer will, so far as permitted by applicable law, rules, regulations and orders issued by any regulatory authorities having competent jurisdiction over the Issuer, give or procure to be given to the Trustee such opinions (including any legal opinions or the opinions of any other professional advisors), certificates, evidence and information as it requires in such form as it shall require or as addressed to it or in its opinion considered necessary to perform its functions and/or exercise its duties, trusts, authorities, rights, powers and discretions under this Trust Deed, the Agency Agreement or the Conditions or by operation of law;
- 6.8 Certificate of Directors:** the Issuer will send to the Trustee, within 120 days of its annual audited financial statements of the Issuer being made available to its members, and also within 14 days of any request by the Trustee, a certificate of the Issuer signed by any one of its Directors that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer (i) whether the Directors have knowledge of any Event of Default under Condition 9 that had occurred during the previous year that is then continuing and, if so, specifying such Event of Default and giving details of it; and (ii) the Issuer has complied with all their obligations under this Trust Deed and the Bonds, with such certificates being substantially in the form set out in Part A of Schedule 4. The Trustee need not call for further evidence and shall not be liable to any Bondholder or any other person and shall not be responsible for any liability that may be occasioned by acting or not acting on such a certificate;
- 6.9 Notices to Bondholders:** if it is permitted by any applicable law, rules (including, but not limited to, the Rules Governing the Listing of Securities on the SEHK), regulations and orders issued by any regulatory authorities having competent jurisdiction over the Issuer, the Issuer will send to the Trustee not less than five Hong Kong Business Days prior to the date of publication in any other circumstances, the form of each notice to be given to Bondholders and, once given, a copy of each such notice, such notice to be in a form approved by the Trustee (such approval not to constitute approval for the purposes of section 21 of the FSMA of any such notice which is a communication within the meaning of section 21 of the FSMA). The failure of the Trustee to provide its approval shall not preclude the Issuer from giving any notice required by the Conditions, applicable law or regulation. For the avoidance of doubt, the Trustee shall not be concerned with, nor shall it be obligated or required to enquire into, the sufficiency or accuracy of the contents of such notices and shall not be liable to Bondholders or any other person for any such approval by the Trustee;
- 6.10 Further Acts:** so far as permitted by applicable law, rules, regulations and orders issued by any regulatory authorities having competent jurisdiction over the Issuer, the Issuer will do all such further things as may be necessary in the opinion of the Trustee to give effect to this Trust Deed, the Agency Agreement and the Bonds;
- 6.11 Notice of Late Payment:** as soon as practicable and in any event within three Business Days of request by the Trustee, the Issuer will give notice to the Bondholders of any unconditional payment to the Principal Paying Agent or the Trustee of any sum due in respect of the Bonds made after the due date for such payment;

- 6.12 Listing and Trading:** the Issuer will use all reasonable endeavours to maintain the listing of the Bonds on the SEHK but, if it is unable to do so, having used all reasonable endeavours, or if the maintenance of such listing or admission to trading is unduly onerous, instead use all reasonable endeavours to obtain and maintain a listing of the Bonds and the admission to trading of the Bonds on another stock exchange selected by the Issuer and notified in writing to the Trustee and the Bondholders. The Issuer will provide an officers' certificate to the Trustee certifying that the maintenance of such listing or admission to trading is unduly onerous and that the listing of the Bonds and admission to trading of the Bonds on another stock exchange shall not be materially prejudicial to the Bondholders;
- 6.13 Change in Agents:** the Issuer will give prompt notice to the Bondholders in accordance with Condition 7(d) of any termination or appointment or change of any Agent or of any change by an Agent of its specified office;
- 6.14 Bonds Held by Issuer etc.:** the Issuer will send to the Trustee as soon as practicable after being so requested by the Trustee a certificate of the Issuer signed by any one of its respective Directors stating the number of Bonds held at the date of such certificate by or on behalf of the Issuer or its Controlled Entities, and the Trustee may rely conclusively on any such certificate;
- 6.15 Compliance:** the Issuer will comply with, perform and observe, and will procure each of its agents to comply with, perform and observe, all the provisions of this Trust Deed, the Agency Agreement, the Bonds and the Conditions relating to any Bonds which are expressed to be binding on it and to perform and observe the same.
- 6.16 Notice of Non-Payment:** the Principal Paying Agent will notify the Trustee if payment is not made as provided in the Agency Agreement;
- 6.17 Maintain Agents:** the Issuer will maintain a Principal Paying Agent, a Registrar and a Transfer Agent in accordance with the Conditions;
- 6.18 Inspection:** the Issuer shall procure that the Principal Paying Agent will make copies of the Trust Deed and the Agency Agreement available for inspection by the Bondholders at the specified office for the time being of the Principal Paying Agent;
- 6.19 Rating Downgrade:** on notice from the Issuer of any downgrade in the ratings of the Bonds, the Trustee may advise the Bondholders of any such downgrade.
- 6.20 Information Collection and Sharing:** the Issuer will, as soon as reasonably practicable but in any event within ten Hong Kong Business Days upon a written request by the Trustee, supply to the Trustee such forms, documentation and other information relating to it, its operations, or the Bonds as the Trustee reasonably requests for the purposes of the Trustee's compliance with Applicable Law and shall notify the Trustee reasonably promptly in the event that it becomes aware that any of the forms, documentations or other information provided by the Issuer is inaccurate in any material respect; *provided, however*, the Issuer shall not be required to provide any forms, documentation or other information pursuant to this clause to the extent that (i) any such form, documentation or other information (or the information required to be provided on such form or documentation) is not reasonably available to the Issuer and cannot be obtained by the Issuer within the prescribed time frame using reasonable efforts; or (ii) doing so would or might in the reasonable opinion of the Issuer constitute a breach of any: (a) Applicable Law; (b) fiduciary duty; or (c) duty of confidentiality.

7 Remuneration and Indemnification of the Trustee

- 7.1 Normal Remuneration:** So long as any Bond is outstanding, the Issuer will pay the Trustee as remuneration for its services as Trustee such sum on such dates in each case as the Issuer and the Trustee may from time to time agree in writing. Such remuneration will accrue from day to day and be payable (in priority to payments to Bondholders) from the date of this Trust Deed until such time when, all the Bonds having become due for redemption, the redemption moneys and interest thereon to the date of redemption have been paid to the Principal Paying Agent or the Trustee. However, if any payment to a Bondholder of moneys due in respect of any Bond is improperly withheld or refused, such remuneration will again accrue as from the date of such withholding or refusal until payment to such Bondholder is duly made.
- 7.2 Extra Remuneration:** If (i) an Event of Default shall have occurred and if the Trustee finds it expedient or necessary or is requested by the Issuer to undertake duties which the Trustee and the Issuer agree to be of an exceptional nature or otherwise outside the scope of the Trustee's normal duties under this Trust Deed, the Issuer will pay such additional remuneration as the Trustee and the Issuer may agree (based on such daily or hourly rate as the Issuer and the Trustee may agree) or, failing such agreement, as determined by a financial institution of international repute (acting as an expert) selected by the Trustee and approved by the Issuer or, failing such approval, nominated (on the application of the Trustee) by the President for the time being of the Law Society of England and Wales. The expenses involved in such nomination and such financial institution's fee will be borne by the Issuer. The determination of such financial institution or person will be conclusive and binding on the Issuer, the Trustee and the Bondholders.
- 7.3 Expenses:** The Issuer will also pay or discharge, within ten Business Days of receipt from the Trustee of a demand letter and the receipts or other evidence of payment, all fees, costs, charges and, expenses properly incurred and liabilities incurred by the Trustee in the preparation and execution of this Trust Deed and the Agency Agreement and the performance of its functions and/or the exercise of its rights, powers and/or discretions under, and in any manner in relation to, this Trust Deed, the Agency Agreement or the Conditions including, but not limited to, legal and travelling expenses and the cost of any agents, delegates and nominees appointed under this Trust Deed and any stamp, documentary or other taxes or duties paid or payable by the Trustee in connection with any legal proceedings or action brought or contemplated by or on behalf of the Trustee against the Issuer to enforce any provision of or resolve any doubt concerning, or for any other purpose in relation to, this Trust Deed, the Agency Agreement or the Conditions.
- 7.4 Indemnity:** Without prejudice to the rights of indemnity by law given to the Trustee, the Issuer hereby unconditionally and irrevocably covenants and undertakes to indemnify and hold harmless the Trustee, its directors, officers, employees, receivers, attorneys, managers and agents (each an "**indemnified party**") in full at all times against all losses, liabilities, actions, proceedings, claims, demands, penalties, damages, costs, expenses, disbursements, and other liabilities whatsoever ("**Losses**"), including without limitation the legal fees, costs and expenses of legal advisers and other experts, which may be incurred, or may be suffered or brought against such indemnified party as a result of or in connection with (a) their appointment or the execution or involvement hereunder or the exercise of any of their trusts, rights, authorities, discretions, powers or duties hereunder or the taking of any acts in accordance with the terms of this Trust Deed, the Agency Agreement and the Bonds; (b) this Trust Deed, the Agency Agreement and the Bonds; or (c) any instructions or other direction upon which the Trustee may rely under this Trust Deed, as well as the costs and expenses incurred by an indemnified party of defending itself against or investigating any claim or liability with respect of the foregoing provided that this indemnity shall not apply in respect of an indemnified party to the extent but only to the extent that a court of competent jurisdiction determines that any such Losses incurred or suffered by or brought against such indemnified party arise from the fraud, wilful default or gross negligence of such indemnified party. The Contracts (Rights of Third Parties) Act 1999 applies to this Clause 7.4.

7.5 Gross Up: All payments by the Issuer under this Trust Deed (other than in respect of the Bonds, where the Conditions shall apply) shall be made free of any deduction or withholding, except as required by law, in which case the Issuer shall gross up such payments, so that the net amount received by the Trustee and each other indemnified party is equal to the amount which would otherwise have been receivable by it had no such deduction or withholding been required.

Notwithstanding any other provision under this Agreement, any amounts to be paid by or on behalf of the Issuer in respect of any amount payable under this Trust Deed will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any Treasury regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any legislation, regulations or official guidance implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”).

7.6 Continuing Effect: Clause 7 will continue in full force and effect as regards the Trustee even if it no longer is Trustee or the Bonds are no longer outstanding or the Trust Deed has been discharged.

7.7 Payment of Expenses: Any costs or payment made by or indemnity payments to the Trustee will be payable or reimbursable on demand and will carry interest at a rate equal to the Trustee’s cost of funds from the date of such demand or from the date of such payment if made prior to such demand.

7.8 Withholding: The Trustee shall be entitled to deduct FATCA Withholding and shall have no obligation to gross-up any payment hereunder or to pay any additional amount as a result of such FATCA Withholding.

8 Provisions Supplemental to the Trustee Act 1925 and the Trustee Act 2000

The Trustee shall have all the powers conferred upon trustees by the Trustee Act 1925 and the Trustee Act 2000 and by way of supplement thereto it is expressly declared as follows:

8.1 Advice: The Trustee may engage and consult, at the cost of the Issuer, with any legal adviser or financial adviser selected by it. The Trustee may act in good faith on the opinion, advice or report of, or information obtained from, any expert (including without limitation any legal advisers, accountants (including the auditors), financial advisers, financial institutions, valuer, surveyor, banker, broker, auctioneer or any other experts), and the Trustee and each of its directors, officers, employees and agents will not be responsible to anyone for any loss occasioned by so acting in good faith, whether such advice is obtained or addressed to the Issuer, the Trustee, any Agent or any other person, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information. Any such opinion, advice or information may be sent or obtained by letter, electronic communication or fax and the Trustee and each of its directors, officers, employees and agents will not be liable to anyone for acting in good faith on any opinion, advice or information purporting to be conveyed by such means even if it contains some error or is not authentic. The Trustee may rely without liability to Bondholders on any report, confirmation or certificate or any advice of any legal advisers, accountants, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to the Trustee and whether or not liability in relation thereto is limited by reference to a monetary cap, methodology or otherwise.

- 8.2 Trustee to Assume Performance:** The Trustee need not notify anyone of the execution of this Trust Deed or any related document or do anything to find out if an Event of Default or Triggering Event has occurred. Until it has express written notice pursuant to this Trust Deed to the contrary, the Trustee may assume that no Event of Default or Triggering Event has occurred and that the Issuer is each properly and fully performing and complying with all their respective obligations under this Trust Deed, the Agency Agreement and the Bonds.
- 8.3 Resolutions of Bondholders:** The Trustee will not be responsible or liable to any Bondholder or any other person for having acted on a resolution purporting (i) to have been passed at a meeting of Bondholders in respect of which minutes have been made and signed or (ii) to be a written resolution made in accordance with paragraph 21 of Schedule 3, even if it is later found that there was a defect in the constitution of the meeting or the passing of the resolution or the making of the directions or that for any reason the resolution purporting to be a Written Resolution or to have been passed at any meeting or that the resolution was not valid or binding on the Bondholders.
- 8.4 Certificate Signed by Directors:** If the Trustee, in the exercise of its functions, rights, powers and/or discretions under this Trust Deed, the Agency Agreement, the Bonds or any other document to which the Trustee is a party in its capacity as such, requires to be satisfied or to have information as to any fact or the expediency of any act, it may call for and accept as conclusive evidence of that fact or the expediency of that act a certificate signed by any one of the Directors or authorised persons of the Issuer as to that fact or to the effect that, in the opinion of the Issuer that act is expedient and the Trustee need not call for further evidence and will not be responsible or liable to any Bondholder or any other person for any loss occasioned by acting on such a certificate.
- 8.5 Deposit of Documents:** The Trustee may appoint as custodian, on any terms, any bank or entity whose business includes the safe custody of documents or any lawyer or firm of lawyers believed by it to be of good repute and may deposit this Trust Deed and any other documents with such custodian and pay all sums due in respect thereof. The Trustee is not obliged to appoint a custodian of securities payable to bearer.
- 8.6 Discretion:** The Trustee will have absolute and unfettered discretion as to the exercise of its functions and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience incurred or suffered by any person which may result from their exercise, non-exercise, any delay in such exercise or any delay in giving any direction where the Trustee is seeking such directions or where instructions sought are not provided by the holders of the Bonds. Whenever in this Trust Deed, the Conditions, the Agency Agreement or by law, the Trustee shall have discretion or permissive power, it may decline to exercise the same in the absence of approval by the Bondholders. The Trustee shall not be bound to exercise any discretion or power or act at the request or direction of the Bondholders unless it is first indemnified and/or secured and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may in its opinion render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by so doing. None of the Trustee or its directors and officers should be precluded from entering into transactions in the ordinary course of business with any of the other parties or be accountable for the same (including any profit therefrom) to the Bondholders or any person.
- 8.7 Agents:** Whenever it considers it expedient in the interests of the Bondholders, the Trustee may, without the permission of another party (provided that the Trustee shall, if practicable, consult with the Issuer prior to any such delegation if it is not in the conduct of its trust business), instead of acting personally, employ and pay (at the cost of the Issuer) an agent selected by it, whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing all acts required to be done by the Trustee (including the receipt and payment of money). The Trustee shall not be bound to supervise the proceedings or acts of and shall not in any way or to any extent be responsible for any Losses incurred by reason of the misconduct, omission or default on the part of such agent.

- 8.8 Delegation:** Whenever it considers it expedient in the interests of the Bondholders, the Trustee may, without the permission of another party, delegate to any person on any terms (including power to sub-delegate) all or any of its functions. The Trustee shall not be under any obligation to supervise the proceedings or acts of any such delegate or be in any way responsible for any liability incurred by reason of any error of judgment, misconduct, omission or default on the part of any such delegate.
- 8.9 Nominees:** In relation to any asset held by it under this Trust Deed, the Trustee may appoint any person to act as its nominee on any terms.
- 8.10 Forged Certificate and Entry on the Register:** The Trustee will not be liable to the Issuer, any Bondholder or any other person by reason of having accepted as valid, not having rejected or relying on a document, any Certificate or any entry on the Register purporting to be such or issued by the clearing system or its operator and later found to be forged or not authentic.
- 8.11 Confidentiality:** Unless ordered to do so by a court of competent jurisdiction or any regulatory body in any jurisdiction or as required by law or regulation, the Trustee shall not be required to disclose to any Bondholder or any other person any financial or other information made available to the Trustee by the Issuer, and no one shall be entitled to take any action to obtain from the Trustee such information, nor shall such information be disclosed to any third party (other than any of the Trustee's financial, legal or other professional advisers or the Issuer's accountants and financial, legal or other professional advisers).
- 8.12 Determinations Conclusive:** The Trustee has full power to determine all questions and doubts arising in relation to any of the provisions of this Trust Deed, the Agency Agreement and the Conditions. Such determinations, whether made upon such a question actually raised or implied in the acts or proceedings of the Trustee, will be conclusive and shall bind all parties.
- 8.13 Currency Conversion:** Where it is necessary or desirable to convert any sum from one currency to another, it will (unless otherwise provided hereby or required by law) be converted at such rate or rates, in accordance with such method, as at such date and at a rate as may be specified by the Trustee in its absolute discretion. Any rate, method and date so specified will be binding on the Issuer and the Bondholders.
- 8.14 Events of Default:** The Trustee may (but is not obliged to) determine whether or not an Event of Default is in its opinion capable of remedy and/or materially prejudicial to the interests of the Bondholders. Any such determination will be conclusive and binding on the Issuer and the Bondholders. If the Trustee is unable in its absolute discretion to determine whether an Event of Default is capable or incapable of remedy and/or an event is materially prejudicial to the interests of the Bondholders, it may call for and rely on an Extraordinary Resolution of the Bondholders to make such determination and the Trustee shall not be obliged to make any determination unless it has been indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee shall not be responsible or liable for any loss or liability incurred by any person for any loss arising from any such determination or, as the case may be, a failure to make such a determination.

- 8.15 Payment for and Delivery of Bonds:** The Trustee will not be responsible for the receipt or application by the Issuer of the proceeds of the issue of the Bonds, any exchange of Bonds or the delivery of Bonds to the persons entitled to them.
- 8.16 Bonds Held by the Issuer etc.:** In the absence of express written notice to the contrary, the Trustee may assume without enquiry (other than requesting a certificate under Clause 6.14) that no Bonds are for the time being beneficially held by or on behalf of the Issuer or its Controlled Entities.
- 8.17 Responsibility for Agents etc.:** If the Trustee exercises due care in selecting any custodian, agent, delegate or nominee appointed under Clauses 8.5, 8.7, 8.8 and 8.9 (an “Appointee”), it will not have any obligation to supervise or monitor the Appointee and the Trustee will not be responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of the Appointee’s misconduct or default or the misconduct or default of any substitute appointed by the Appointee or any director, officer, employee or agent of such Appointee or such substitute. For the avoidance of doubt, notwithstanding any circumstances where any Losses are incurred as a result of any acts or omissions of an Appointee of the Trustee, such acts or omissions shall not affect the rights of the Trustee, its directors, officers, employees and agents to be indemnified by the Issuer under Clause 7 which shall continue to apply.
- 8.18 Interests of Holders through Clearing Systems:** In considering the interests of Bondholders while the Global Certificate is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may call for and rely on any certificate or information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Bonds represented by the Global Certificate.
- 8.19 Enforcement:** In relation to any discretion to be exercised or action to be taken by the Trustee under any transaction document, the Trustee may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against or in relation to the Issuer to declare the Bonds due and payable and/or to enforce the terms of this Trust Deed and the Bonds. However, the Trustee shall not be under any obligation to exercise such discretion or take any such action or proceedings against the Issuer unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction in respect of all costs, claims and liabilities which it has incurred to that date and to which it may thereby and as a consequence thereof in its opinion render itself, or have rendered itself, liable and may do so without having regard to the effect of such action on individual Bondholders.
- 8.20 Documents:** The Trustee shall not be liable to the Issuer, any Bondholder or any other person if without gross negligence, wilful default or fraud on its part it has taken or omitted to take any action in reliance on any document, certificate or communication believed by it to be genuine and to have been presented or signed by the proper person.
- 8.21 Interests of Bondholders:** In connection with the exercise of its powers, trusts, authorities or discretions (including, but not limited to, those in relation to any proposed modification, waiver or authorisation of any breach or proposed breach of any of the Conditions or any of the provisions of this Trust Deed), the Trustee shall have regard to the interests of the Bondholders as a class and in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequences of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or otherwise to the tax consequences thereof and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim from the Issuer or the Trustee any indemnification or payment of any tax arising in consequence of any such exercise upon individual Bondholders.

- 8.22 Consent:** Any consent or approval to be given by the Trustee for the purposes of this Trust Deed may be given on such terms and subject to such conditions (if any) as the Trustee thinks fit.
- 8.23 Compliance:** The Conditions shall be binding on the Issuer and the Bondholders. The Trustee shall be entitled to enforce the obligations of the Issuer under the Bonds and the Conditions as if the same were set out and contained in this Trust Deed which shall be read and construed as one document with the Bonds.
- 8.24 Error of Judgment:** The Trustee shall not be liable for any error of judgment made by any officer or employee of the Trustee assigned by the Trustee to administer its corporate trust matters.
- 8.25 Trustee not Responsible:** The Trustee shall not be responsible for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of this Trust Deed, the Bonds or any other document relating thereto, any licence, consent or other authority for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, performance, enforceability or admissibility in evidence of this Trust Deed or the Bonds or any other document relating thereto. In addition, subject to Section 750 and 751 of the Companies Act 2006, notwithstanding anything to the contrary in this Trust Deed, the Bonds or any other document relating thereto, the Trustee shall not be responsible for the effect of the exercise of any of its powers, duties and discretions, or be liable to any person for any matter or thing done or omitted in any way, hereunder or thereunder, save to the extent resulting from the gross negligence, wilful default or fraud of the Trustee.
- 8.26 Responsibility for Statements:** The Trustee shall not be responsible for, or for investigating any matter which is the subject of, any recital, statement, representation, warranty or covenant of any person contained in this Trust Deed, the Agency Agreement and any offering document in relation to the Bonds or any other agreement or document relating to the transactions contemplated (and shall be entitled to assume the accuracy and correctness thereof) or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of this Trust Deed, the Agency Agreement or under such other agreement or document.
- 8.27 Legal Opinions:** The Trustee shall have no responsibility to Bondholders or any other person in the event that it fails to request, require or receive any legal opinion relating to the Bonds, this Trust Deed, the Agency Agreement or any other relevant document or matter or for the content of any legal opinion. The Trustee shall not be responsible for the content of any legal opinions issued in connection with the Bonds and may rely without liability on the advice of any such legal opinion.
- 8.28 Freedom to Refrain:** Notwithstanding anything else contained herein and other documents to which it is a party, the Trustee may refrain from doing anything which would or might in its opinion be contrary to any law of any jurisdiction, any court order or arbitral award or any directive or regulation or fiscal requirement of any agency or any state or the rules, operating procedures or market practice of any relevant stock exchange or other market or clearing system or which would or might otherwise render it liable to any person or which it would not have the power to do in that jurisdiction and may do anything which is, in its opinion, necessary to comply with any such law, court order, arbitral award, directive or regulation.

- 8.29 No Obligation to Monitor:** The Trustee shall be under no obligation to check or verify the accuracy and correctness of any information provided to it or to monitor or supervise the functions or performance of the Issuer or any other person under this Trust Deed, the Agency Agreement, the Bonds or any other agreement or document relating to the transactions herein or therein contemplated and shall be entitled, in the absence of actual knowledge of a breach of obligation, to assume that each such person is fully and properly performing and complying with its obligations. For the avoidance of doubt, the Trustee shall be under no obligation to monitor any performance of the Issuer. The Trustee shall not be responsible to Bondholders for any loss arising from any failure to do so.
- 8.30 Ratings:** The Trustee shall have no responsibility whatsoever to the Issuer, any Bondholder or any other person for the maintenance of or failure to maintain any rating of any of the Bonds by any rating agency and the Trustee may rely conclusively on any such confirmation given by a rating agency.
- 8.31 Consequential Losses:** Notwithstanding any other term or provision of this Trust Deed, the Agency Agreement or the Conditions or other documents to which it is a party to the contrary, the Trustee shall not be liable under any circumstances for special or punitive damages, indirect or consequential loss or damages of any kind whatsoever (including without limitation loss of profits), whether or not foreseeable, or for any loss of business, goodwill, opportunity or profit, reputation, business opportunity or anticipated saving whether arising directly or indirectly and whether or not foreseeable, even if the Trustee is actually aware or has been advised of the likelihood of such special or punitive damages, indirect or consequential loss or damages and regardless of whether the claim for such loss or damage is made in negligence, for breach of contract, breach of trust, breach of fiduciary obligation or otherwise. The provisions of this Clause 8.31 shall survive the termination or expiry of this Trust Deed and/or the resignation or removal of the Trustee but this Clause 8.31 shall not apply in the event that a court with jurisdiction determines that the Trustee has acted fraudulently or to the extent the limitation of such liability would be precluded by virtue of Sections 750 and 751 of the Companies Act 2006.
- 8.32 Force Majeure:** Notwithstanding anything to the contrary in this Trust Deed, the Conditions or the Agency Agreement, the Trustee shall not in any event be liable for any failure or delay in the performance of its obligations or the exercise of its rights hereunder or thereunder if it is prevented from so performing its obligations or exercising its rights by circumstances beyond the control of the Trustee, including without limitation, nationalisation, expropriation, any existing or future law, order or regulation, any existing or future act of governmental authority, supranational or regulatory body, regulation of the banking or securities industry including changes in market rules or practice, currency restrictions, devaluations or fluctuations, market conditions affecting the execution or settlement of transactions or the value of assets, breakdown, failure or malfunction of any third party transport, telecommunications, computer services or systems, natural disasters, pandemics or act of God, flood, fire, war whether declared or undeclared, terrorism, insurrection, revolution, riot, rebellion, civil commotion, strike, lockout, other industrial action, general failure of electricity, accidental or mechanical or electrical breakdown, computer failure or failure of any money transmission system or the SWIFT system.
- 8.33 Right to Deduct or Withhold:** Notwithstanding anything contained in this Trust Deed or the other transaction documents, to the extent required by any Applicable Law, if the Trustee is or will be required to make any deduction or withholding from any distribution or payment made by it hereunder or if the Trustee is or will be otherwise charged to, or is or may become liable to, tax as a consequence of performing its duties hereunder whether as principal, agent or otherwise, and whether by reason of any assessment, prospective assessment or other imposition of liability to taxation of whatsoever nature and whensoever made upon the Trustee, and whether in connection with or arising from any sums received or distributed by it or to which it may be entitled under this Trust Deed (other than in connection with its own remuneration as provided for herein) or any investments or deposits from time to time representing the same, including any income or gains arising therefrom or any action of the Trustee in connection with the trusts of this Trust Deed (other than in connection with its own remuneration as herein provided for) in each case, then the Trustee shall be entitled to make such deduction or withholding or, as the case may be, to retain out of sums received by it an amount sufficient to discharge any liability to tax which relates to sums so received or distributed or to discharge any such other liability of the Trustee to tax from the funds held by the Trustee upon the trusts of this Trust Deed.

- 8.34 Consolidation, Amalgamation etc.:** The Trustee shall not be responsible for any consolidation, amalgamation, merger, reconstruction or scheme of the Issuer, or any sale or transfer of all or substantially all of the assets of the Issuer or the form or substance of any plan relating thereto or the consequences thereof to any Bondholder.
- 8.35 Expenditure of Trustee's Own Funds:** No provision of this Trust Deed, the Agency Agreement or the Conditions shall require the Trustee to do anything which may cause it to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights, powers, authority or discretion hereunder, if it believes that repayment of such funds or satisfactory indemnity and/or security and/or pre-funding against such risk or liability is not assured to it.
- 8.36 Trustee Not Responsible to Investigate:** Each party (including each holder of the Bonds) shall be solely responsible for making and continuing to make its own independent appraisal of and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, and the Trustee shall not at any time have any responsibility or liability for the same and no party (including each holder of the Bonds) shall rely on the Trustee in this respect.
- 8.37 Not Responsible for Listing Obligations:** Nothing in this Trust Deed shall require the Trustee to assume an obligation of the Issuer or any other person arising under any provision of the listing, prospectus, disclosure or transparency rules (or equivalent rules of any other applicable competent authority).
- 8.38 Professional Charge:** Any Trustee being a banker, lawyer, broker or other person engaged in any profession or business shall be entitled to charge and be paid all usual professional and other charges for its time, business transacted and acts done by him or his partner or firm on matters arising in connection with the trusts of this Trust Deed, the Agency Agreement and the Bonds and any incurred charges in addition to disbursements for all other work and business done and all time spent by him or his partner or firm on matters arising in connection with this Trust Deed, the Agency Agreement and the Bonds, including matters which might or should have been attended to in person by a trustee not being a banker, lawyer, broker or other professional person.
- 8.39 Illegality:** No provisions of this Trust Deed, the Agency Agreement, or the Conditions shall require the Trustee to (a) do anything which may be illegal or contrary to applicable law or regulation (including, without limitation, Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act), (b) do anything which may cause the Trustee to be considered a sponsor of a covered fund under Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and any regulations promulgated thereunder, if it believes that repayment of such funds or adequate indemnity against such risk or the liability is not assured to it or it is not indemnified and/or secured and/or pre-funded to its satisfaction against such liability.

8.40 Regulatory Position: Notwithstanding anything in the Trust Deed or any other transaction document to the contrary, the Trustee shall not do, or be authorised or required to do, anything which might constitute a regulated activity for the purpose of Part 1 of Schedule 5 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “SFO”), unless it is authorised under the SFO to do so.

The Trustee shall have the discretion at any time:

- (a) to delegate any of the functions which fall to be performed by an authorised person under the SFO to any other agent or person which also has the necessary authorisations and licences; and
- (b) to apply for authorisation under the SFO and perform any or all such functions itself if, in its absolute discretion, it considers it necessary, desirable or appropriate to do so.

8.41 Reliance on Rating Agency Confirmation: The Trustee should be able to rely on rating agency confirmations.

8.42 Evaluation of security or indemnity by Trustee: (i) When determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled to evaluate its risk in any given circumstance by considering the worst-case scenario and, for this purpose, it may take into account, without limitation, the potential costs of defending or commencing proceedings in Hong Kong or elsewhere and the risk, however remote, of any award of damages against it in Hong Kong or elsewhere. (ii) The Trustee shall be entitled to require that any indemnity or security given to it by the Bondholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

9 Trustee Liable for Gross Negligence

Section 1 of the Trustee Act 2000 shall not apply to any function or duties of the Trustee in relation to the trusts constituted by this Trust Deed, provided that if the Trustee fails to show the degree of care and diligence required of it as trustee, having regard to the provisions of this Trust Deed conferring on it any powers, authorities or discretions, nothing in this Trust Deed shall relieve or indemnify it from or against any liability which would otherwise attach to it in respect of any gross negligence, wilful default or fraud of which it may be guilty. In the case of any inconsistency between the Trustee Acts 1925 and 2000 and this Trust Deed, the provisions of this Trust Deed shall prevail to the fullest extent provided or permitted by law. In the case of any inconsistency with the Trustee Act 2000, the provisions of this Trust Deed shall take effect as a restriction or exclusion for the purpose of that Act.

10 Waiver and Proof of Default

10.1 Waiver: The Trustee may (but shall not be obliged to), without the consent of the Bondholders and without prejudice to its rights in respect of any subsequent breach, from time to time and at any time, if in its opinion the interests of the Bondholders will not be materially prejudiced thereby, waive or authorise, on such terms as seem expedient to it, any breach or proposed breach by the Issuer of this Trust Deed, the Agency Agreement or the Conditions, provided that the Trustee will not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 12. No such direction or request will affect a previous waiver, authorisation or determination. Any such waiver, authorisation or determination may be subject to such terms and conditions (if any) as the Trustee may determine and will be binding on the Bondholders. Unless the Trustee otherwise agrees, any such waiver, authorisation or determination will be notified by the Issuer to the Bondholders as soon as practicable.

- 10.2 Proof of Default:** Proof that the Issuer has failed to pay a sum due to the holder of any one Bond will (unless the contrary be proved) be sufficient evidence that it has made the same default as regards all other Bonds which are then payable.
- 10.3** Any such waiver or authorisation may be subject to such terms and conditions (if any) as the Trustee may determine and will be binding on the Bondholders and, unless the Trustee otherwise agrees, any such waiver or authorisation will be notified by the Issuer to the Bondholders as soon as practicable.
- 11 Trustee not Precluded from Entering into Contracts**
- The Trustee and any other person, whether or not acting for itself, may acquire, hold or dispose of any Bond or other security (or any interest therein) of the Issuer or any other person, may enter into or be interested in any contract or transaction with any such person and may act on, or as trustee, depository or agent for, any committee or body of holders of any securities of any such person in each case with the same rights as it would have had if the Trustee were not acting as Trustee and need not account for any profit.
- 12 Modification**
- 12.1 Modification:** The Trustee may (but shall not be obliged to) agree without the consent of the Bondholders to any modification to the Conditions or any provisions of this Trust Deed or the Agency Agreement which is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law. The Trustee may also so agree without the consent of the Bondholders to any modification to the Conditions or any of the provisions of this Trust Deed or the Agency Agreement or the Conditions which is in its opinion not materially prejudicial to the interests of the Bondholders, but such power does not extend to any such modification as is mentioned in the proviso to paragraph 3 of Schedule 3.
- 12.2** Any such modification may be subject to such terms and conditions (if any) as the Trustee may determine and will be binding on the Bondholders and, unless the Trustee otherwise agrees, any such modification will be notified by the Issuer to the Bondholders as soon as practicable.
- 13 Appointment, Retirement and Removal of the Trustee**
- 13.1 Appointment:** Subject as provided in Clause 13.2 below, the Issuer has the power of appointing new trustees but no-one may be so appointed unless previously approved by an Extraordinary Resolution. A trust corporation will at all times be a Trustee and may be the sole Trustee. Any appointment of a new Trustee will be notified by the Issuer to the Bondholders as soon as practicable.
- 13.2 Retirement and Removal:** Any Trustee may retire at any time on giving at least 45 days' written notice to the Issuer without giving any reason or being responsible for any costs, charges and expenses occasioned by such retirement and the Bondholders may by Extraordinary Resolution remove any Trustee, provided that the retirement or removal of a sole trust corporation will not be effective until a trust corporation is appointed as successor Trustee. If a sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal, the Issuer will use its best endeavours to procure that another trust corporation be appointed as Trustee but if a replacement Trustee is not so appointed by the day falling 30 days after such notice is given, the Trustee shall have the power to appoint (at the cost of the Issuer) a new Trustee or the Trustee may petition any court of competent jurisdiction for its resignation provided that it has notified the Issuer prior to it doing so. If such petition is granted, the Trustee shall notify the Issuer, the Agents and the Bondholders in writing of its resignation.

13.3 Co-Trustees: The Trustee may, despite Clause 13.1, by written notice to the Issuer appoint anyone to act as an additional Trustee jointly with the Trustee:

13.3.1 if the Trustee considers the appointment to be in the interests of the Bondholders;

13.3.2 to conform with a legal requirement, restriction or condition in a jurisdiction in which a particular act is to be performed; or

13.3.3 to obtain a judgment or to enforce a judgment or any provision of this Trust Deed in any jurisdiction.

The Issuer shall notify, Standard & Poor's Rating Services, Fitch Inc., or any other rating agency then rating the Bonds of the appointment of any additional trustee pursuant to this Clause 13.3. Subject to the provisions of this Trust Deed, the Trustee may confer on any person so appointed such functions as it thinks fit. The Trustee may by written notice to the Issuer and that person remove that person. At the Trustee's request, the Issuer will as soon as practicable and in any event within 30 days do all things at its own cost as may be required to perfect such appointment or removal and each of them irrevocably appoints the Trustee as its attorney in its name and on its behalf to do so. The Trustee shall not be obliged to monitor or supervise any such additional Trustee and shall not be responsible or liable for the acts, omissions, negligence, misconduct or fraud of any such additional Trustee. The liability of co-Trustees shall be several and not joint.

13.4 Competence of a Majority of Trustees: If there are more than two Trustees, the majority of them will be competent to perform the Trustee's functions, provided the majority includes a trust corporation.

13.5 Successor: Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor to the Trustee hereunder (provided that where it is the sole trustee it is a trust corporation) without the execution or filing of any papers or any further act on the part of any of the parties hereto.

14 Currency Indemnity

14.1 Currency of Account and Payment: U.S. dollars (the "**Contractual Currency**") is the sole currency of account and payment for all sums payable by the Issuer under or in connection with this Trust Deed and the Bonds, including damages.

14.2 Extent of Discharge: An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise), by any Bondholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer, as applicable, to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

14.3 Indemnity: If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under any Bond, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of these indemnities, it will be sufficient for the Bondholder to demonstrate that it would have suffered a loss had an actual purchase been made.

14.4 Indemnity Separate: The indemnities in this Clause 14 and in Clause 7.4 constitute separate and independent obligations from the Issuer's other obligations under this Trust Deed, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bonds or any other judgment or order. This Clause 14 will continue in full force and effect as regards the Trustee even if it is no longer the Trustee or if this Trust Deed is terminated or expires.

15 Communications

15.1 Notices: Any communication shall be by letter, fax or email:

in the case of the Issuer, to it at:

New Oriental Education & Technology Group Inc.
No. 6 Hai Dian Zhong Street
Haidian District, Beijing 100080
People's Republic of China

Fax no.: +(86 10) 6260-5511

Attention: Zhihui Yang, Chief Financial Officer

Email: ***

and in the case of the Trustee, to it at:

DB Trustees (Hong Kong) Limited
Level 52 International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Fax no.: +852 2203 7320

Attention: The Directors

15.2 All Communications in English: All communications, documents, notices, certificates etc. provided under this Trust Deed or in relation to the Bonds will be in English.

Communications will take effect, in the case of a letter, when delivered, and in the case of fax, when the relevant delivery receipt is received by the sender or, in the case of email, when sent; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following Business Day in such place and in the case of an

electronic communication, when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication (provided that any notice, demand or communication received outside business hours or on a non-Business Day will be deemed to take effect on the next Business Day in the place of receipt). Any communication delivered to any party under this Trust Deed which is sent by fax will be written legal evidence.

16 Governing Law and Jurisdiction

- 16.1 Governing Law:** This Trust Deed and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.
- 16.2 Jurisdiction:** The courts of Hong Kong are to have jurisdiction to settle any disputes which may arise out of or in connection with this Trust Deed or the Bonds (including any dispute relating to any non-contractual obligations arising out of or in connection with this Trust Deed or the Bonds) and accordingly any legal action or proceedings arising out of or in connection with this Trust Deed or the Bonds (including any legal action or proceedings relating to any non-contractual obligations arising out of or in connection with this Trust Deed or the Bonds) (“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objections to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 16.3 Waiver of Immunity:** To the extent that the Issuer may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.
- 16.4 Agent for Service of Process:** The Issuer has irrevocably appointed Law Debenture Corporate Services Inc. as its authorised agent at Suite 1301, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong to receive service of process in any proceedings in Hong Kong based on this Trust Deed.

17 Counterparts

This Trust Deed may be executed in any number of counterparts, each of which shall be deemed an original.

18 Entitlement to Treat Holders as Owners

The Trustee should be entitled to treat the holder of any Bond as the absolute owner without the need for further investigation.

19 Trustee Powers to be Additional

The Trustee powers should be additional to any powers under general law or as holder of any of the Bonds.

20 Entire Agreement

Except as agreed by the parties to be amended, restated and/or supplemented from time to time, this Trust Deed contains the whole agreement between the parties relating to the subject matter of this Trust Deed and supersedes any previous written or oral communication between the parties in relation to the matters dealt with in this Trust Deed.

Schedule 1
Part A
Form of Global Certificate

ISIN: XS2188788140
Common Code: 218878814

New Oriental Education & Technology Group Inc.

(incorporated with limited liability in the Cayman Islands)

U.S.\$ 300,000,000
2.125 per cent. Bonds due 2025

GLOBAL CERTIFICATE

This Global Certificate is issued in respect of the principal amount specified above of the Bonds (the “**Bonds**”) of New Oriental Education & Technology Group Inc. (the “**Issuer**”). This Global Certificate certifies that DB Nominees (Hong Kong) Limited as nominee for the Common Depository on behalf of Euroclear Bank SA/NV and Clearstream Banking S.A. is registered as the holder of such principal amount of the Bonds at the date hereof.

Interpretation and Definitions

References in this Global Certificate to the “**Conditions**” are to the Terms and Conditions applicable to the Bonds (which are in the form set out in Schedule 2 to the Trust Deed (the “**Trust Deed**”) dated July 2, 2020 between the Issuer, and DB Trustees (Hong Kong) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this Global Certificate, which in the event of any conflict shall prevail). Other capitalised terms used in this Global Certificate shall have the meanings given to them in the Conditions or the Trust Deed.

Promise to Pay

The Issuer for value received, promises to pay to the holder of the Bonds represented by this Global Certificate (subject to surrender of this Global Certificate if no further payment falls to be made in respect of such Bonds) on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the Bonds represented by this Global Certificate and to pay interest in respect of such Bonds from the date of issue in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by this Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions. Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

For the purposes of this Global Certificate, (a) the holder of the Bonds represented by this Global Certificate is bound by the provisions of the Trust Deed, (b) the Issuer certifies that the Registered Holder is, at the date hereof, entered in the Register as the holder of the Bonds represented by this Global Certificate, (c) this Global Certificate is evidence of entitlement only, (d) title to the Bonds represented by this Global Certificate passes only on due registration on the Register, and (e) only the holder of the Bonds represented by this Global Certificate is entitled to payments in respect of the Bonds represented by this Global Certificate.

Transfer of Bonds Represented by Global Certificates

Transfers of the holding of Bonds represented by this Global Certificate pursuant to Condition 2(b) may only be made in part if the Bonds represented by this Global Certificate are held on behalf of Euroclear or Clearstream or any other clearing system (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, provided that, in the case of the first transfer of part of a holding pursuant to the above, the holder of the Bonds represented by this Global Certificate has given the Registrar not less than 30 days’ notice at its specified office of such holder’s intention to effect such transfer. Where the holding of Bonds represented by this Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which this Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

Meetings

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by this Global Certificate shall (unless this Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Bonds.

Notices

So long as the Bonds are represented by this Global Certificate and this Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Cancellation

Cancellation of any Bond by the Issuer following its redemption or purchase by the Issuer will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee’s Powers

In considering the interests of Bondholders while this Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obligated to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which this Global Certificate is issued.

Accountholder

For so long as all of the Bonds are represented by this Global Certificate and such Global Certificate is held on behalf of a relevant clearing system, each person who is for the time being shown in the records of such relevant clearing system as entitled to a particular principal amount of such Bonds (each an “**Accountholder**”) (in which regard any certificate or other document issued by such relevant clearing system to the aggregate principal amount of such Bonds standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Bonds (and the expression “**Bondholders**” and references to “**holding of Bonds**” and to “**holder of Bonds**” shall be construed accordingly) for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the holders) other than with respect to the payment of principal, premium (if any) and interest on such Bonds, for which purpose the Registered Holder of this Global Certificate shall be deemed to be the holder of such principal amount of the Bonds in accordance with and subject to the terms of this Global Certificate and the Trust Deed. Each Accountholder must look solely to the relevant clearing system for its share of each payment made to the Registered Holder of the Global Certificate.

This Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

This Global Certificate and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

In witness whereof the Issuer has caused this Global Certificate to be signed on its behalf.

New Oriental Education & Technology Group Inc.

By: _____
(Duly authorised)

Certificate of Authentication

This Global Certificate is authenticated
by or on behalf of the Registrar.

Deutsche Bank Aktiengesellschaft, Hong Kong Branch

(incorporated in the Federal Republic of Germany & members' liability is limited)

as Registrar
(without warranty, recourse or liability)

By: _____

Authorised Signatory
For the purposes of authentication only.

Form of Transfer

For value received the undersigned transfers to

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE)

[•] principal amount of the Bonds represented by this Global Certificate, and all rights under them.

Dated
Signed

Certifying Signature

Notes:

- 1 The signature of the person effecting a transfer shall conform to a list of duly authorised specimen signatures supplied by the holder of the Bonds represented by this Global Certificate or (if such signature corresponds with the name as it appears on the face of this Global Certificate) be certified by a notary public or a recognised bank or be supported by such other evidence as a Transfer Agent or the Registrar may require.
- 2 A representative of the Bondholder should state the capacity in which he signs e.g. executor.

Schedule 1
Part B
Form of Certificate

On the front:

New Oriental Education & Technology Group Inc.

(incorporated with limited liability in the Cayman Islands)

U.S.\$ 300,000,000
2.125 per cent. Bonds due 2025

CERTIFICATE

Certificate No. [•]

This Certificate certifies that [•] of [•] (the “**Registered Holder**”) is, as at the date hereof, registered as the holder of [principal amount] of the Bonds referred to above (the “**Bonds**”) of New Oriental Education & Technology Group Inc. (the “**Issuer**”). The Bonds are subject to the Terms and Conditions (the “**Conditions**”) endorsed hereon and are issued subject to, and with the benefit of, the Trust Deed referred to in the Conditions. Expressions defined in the Conditions have the same meanings in this Certificate.

The Issuer for value received, promises to pay to, or to the order of, the holder of the Bonds represented by this Certificate (subject to surrender of this Certificate if no further payment falls to be made in respect of such Bonds) on [*the Maturity Date*] (or on such earlier date as the amount payable upon redemption under the Conditions may become payable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the Bonds represented by this Certificate and to pay interest in respect of such Bonds from [*the Interest Commencement Date*] in arrear at the rates, in the amounts and on the dates for payment provided for in the Conditions together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

For the purposes of this Certificate, (a) the holder of the Bonds represented by this Certificate is bound by the provisions of the Trust Deed, (b) the Issuer certifies that the Registered Holder is, at the date hereof, entered in the Register as the holder of the Bonds represented by this Certificate, (c) this Certificate is evidence of entitlement only, (d) title to the Bonds represented by this Certificate passes only on due registration on the Register, and (e) only the holder of the Bonds represented by this Certificate is entitled to payments in respect of the Bonds represented by this Certificate.

This Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar.

In witness whereof the Issuer has caused this Global Certificate to be signed on its behalf.

Dated [•]

New Oriental Education & Technology Group Inc.

By: _____

Name:

Title:

Certificate of Authentication

This Certificate is authenticated
by or on behalf of the Registrar.

Deutsche Bank Aktiengesellschaft, Hong Kong Branch

(incorporated in the Federal Republic of Germany & members' liability is limited)

as Registrar
(without warranty, recourse or liability)

By: _____

Authorised Signatory
For the purposes of authentication only.

Terms and Conditions of the Bonds

TERMS AND CONDITIONS OF THE BONDS

The following, subject to modification and except for the paragraphs in italics, is the text of the Terms and Conditions of the Bonds.

The issue of the US\$300,000,000 2.125 per cent. Bonds due 2025 (the “**Bonds**” which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 13 and consolidated and forming a single series therewith) of New Oriental Education & Technology Group, Inc. (the “**Issuer**”) will be constituted by a Trust Deed (as amended, restated, replaced or supplemented from time to time) (the “**Trust Deed**”) to be dated on or about July 2, 2020 between the Issuer and DB Trustees (Hong Kong) Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for itself and the holders of the Bonds. The Bonds will be the subject of an agency agreement (as amended, restated, replaced or supplemented from time to time) (the “**Agency Agreement**”) to be dated on or about July 2, 2020 relating to the Bonds between the Issuer, the Trustee, Deutsche Bank AG, Hong Kong Branch as registrar (the “**Registrar**”), as transfer agent (the “**Transfer Agent**”) and as initial principal paying agent (the “**Principal Paying Agent**”), and any other agents named in it. References herein to “**Agents**” means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time with respect to the Bonds. The Bondholders will be entitled to the benefit of, are bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement will be available to Bondholders upon reasonable prior written notice and satisfactory proof of holding at all reasonable times during usual business hours (being between 9:00am and 5:00pm) at the principal place of business of the Principal Paying Agent (presently at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong).

All capitalised terms that are not defined in these terms and conditions (the “**Conditions**”) will have the meanings given to them in the Trust Deed.

1 Form, Specified Denomination and Title

The Bonds are issued in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The Bonds are represented by registered certificates (“**Certificates**”) and each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by transfer and registration in the Register as described in Condition 2. The holder of any Bond will (except as required by law) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, “**Bondholder**” or “holder” in relation to a Bond means the person in whose name a Bond is registered.

2 Transfers of Bonds

(a) *Register*

The Issuer will cause a register (the “**Register**”) to be kept at the specified office of the Registrar outside of the United Kingdom and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the holders and the particulars of the Bonds held by them and of all transfers of the Bonds. Each holder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

(b) *Transfer*

Subject to the Agency Agreement and Conditions 2(e) and 2(f) herein, a Bond may be transferred by depositing the Certificate issued in respect of that Bond, with the form of transfer on the back of the Certificate duly completed and signed, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a holding of Bonds evidenced by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a) shall be available for delivery within seven business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post (airmail if overseas) at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify.

In this Condition 2(c), “**business day**” means a day, other than a Saturday, Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) *Formalities Free of Charge*

Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but (i) upon payment by the relevant holder of any and all tax or other governmental charges or other duty of whatsoever nature which may be levied or imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Agent may require), and (ii) subject to Conditions 2(e) and 2(f).

(e) Closed Periods

No holder may require the transfer of a Bond to be registered during the period of (i) seven business days ending on (but excluding) the due date for any payment of principal in respect of that Bond, (ii) during the period of seven business days ending on (and including) any Record Date (as defined in Condition 1(a)), (iii) during the period of seven days prior to (and including) any date on which Bonds may be called for redemption by the Issuer pursuant to Conditions 6(b) or 6(c), or (iv) after any such Bond has been put for repurchase pursuant to Condition **Error! Reference source not found.** or Condition 6(e).

(f) Regulations

All transfers of Bonds and entries on the register of holders will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be made available for inspection by the Registrar to any holder upon reasonable prior written request and satisfactory proof of holding.

3 Status of the Bonds

The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer, except for such obligations as may be preferred by applicable provisions of law, and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and regulations, at all times rank at least equally with all its other present and future unsecured, unconditional and unsubordinated obligations.

Upon issue, the Bonds will be evidenced by a global certificate (the “*Global Certificate*”) substantially in the form scheduled to the Trust Deed. The Global Certificate will be registered in the name of a nominee for, and deposited with, a common depository for Euroclear and Clearstream and will be exchangeable for individual Bond Certificates only in the circumstances set out therein.

4 Covenants

(a) Negative Pledge

So long as any Bond remains outstanding, the Issuer will not and will ensure that none of its Principal Controlled Entities will, create, or have outstanding, any Lien upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness either of the Issuer or of any of its Principal Controlled Entities, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto (i) according to the Bonds equally and ratably the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (ii) such other security as shall be approved by an Extraordinary Resolution of the Bondholders.

The foregoing restriction will not apply to:

(i) any Lien arising or already arisen automatically by operation of law which is timely discharged or disputed in good faith by appropriate proceedings;

(ii) any Lien in respect of the obligations of any Person which becomes a Principal Controlled Entity or which merges with or into the Issuer or a Principal Controlled Entity after the date of the Trust Deed which is in existence at the date on which it becomes a Principal Controlled Entity or merges with or into us or a Principal Controlled Entity; provided that any such Lien was not incurred in anticipation of such acquisition or of such Person becoming a Principal Controlled Entity or being merged with or into the Issuer or a Principal Controlled Entity;

(iii) any Lien created or outstanding in favor of the Issuer;

(iv) any Lien in respect of Relevant Indebtedness of the Issuer or any Principal Controlled Entity with respect to which the Issuer or such Principal Controlled Entity has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Issuer or such Principal Controlled Entity in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full);

(v) any Lien created in connection with Relevant Indebtedness of the Issuer or any Principal Controlled Entity denominated in RMB and initially offered, marketed or issued primarily to Persons resident in the PRC;

(vi) any Lien created in connection with a project financed with, or created to secure, Non-recourse Obligations; or

(vii) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by the foregoing clause (ii) or clause (vi); provided that such Relevant Indebtedness is not increased beyond the principal amount thereof (together with the costs of such refinancing, extension, renewal or refunding) and is not secured by any additional property or assets (other than improvements, additions and appurtenances thereto).

(b) *Financial Statements and Notices of Default*

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer shall make available to the Trustee, as soon as they are available but in any event not more than 30 calendar days after any financial or other reports of the Issuer are filed with the New York Stock Exchange, or if the Issuer's Capital Stock is no longer listed on the New York Stock Exchange, any other recognised exchange on which the Issuer's Capital Stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange; *provided* that if at any time the Capital Stock of the Issuer ceases to be listed for trading on a recognised stock exchange, the Issuer shall send to the Trustee:

- (i) as soon as practicable after they are available and in any event not more than 120 calendar days after the end of each Relevant Period, two copies of the Issuer Audited Financial Reports (audited by an internationally or nationally recognised firm of independent accountants), and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally or nationally recognised firm of independent accountants or (B) a professional translation service provider and checked by an internationally or nationally recognised firm of independent accountants, together with a certificate signed by a director or duly authorised officer of the Issuer certifying that such translation is complete and accurate; and

- (ii) as soon as practicable after they are available and in any event not more than 90 calendar days after the end of each Relevant Period, two copies of the Issuer Unaudited Financial Reports (reviewed by an internationally or nationally recognised firm of independent accountants) prepared on a basis consistent with Issuer Audited Financial Reports, and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally or nationally recognised firm of independent accountants or (B) a professional translation service provider and checked by an internationally or nationally recognised firm of independent accountants together with a certificate signed by a director or duly authorised officer of the Issuer certifying that such translation is complete and accurate; and
- (iii) as soon as practicable after they are available and in any event not more than 60 calendar days after the end of each Relevant Period, two copies of the Issuer Quarterly Financial Statements prepared on a basis consistent with Issuer Audited Financial Reports, and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally or nationally recognised firm of independent accountants or (B) a professional translation service provider and checked by an internationally or nationally recognised firm of independent accountants together with a certificate signed by a director or duly authorised officer of the Issuer certifying that such translation is complete and accurate.

In addition, so long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer will provide to the Trustee within 120 calendar days after the close of each fiscal year ending after the Issue Date and within 14 days of any request therefor from the Trustee, a Compliance Certificate of the Issuer (on which the Trustee may rely conclusively as to such compliance and shall not be liable to any Bondholder or any other person for such reliance).

So long as any of the Bonds remain outstanding (as defined in the Trust Deed), the Issuer will file with the Trustee, as soon as possible and in any event within 10 calendar days after the Issuer becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and a director's certificate of the Issuer setting forth the details thereof and the action the Issuer is taking or proposes to take with respect thereto.

(c) **NDRC Registration**

The Issuer undertakes to file or cause to be filed with the NDRC the requisite information and documents within the timeframe prescribed by the NDRC after the Issue Date (as defined under Condition 5) in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, the Approval of Foreign Debt Quota Administration Reform Trial Enterprise (Second Batch) for 2017 issued by the NDRC on March 22, 2017, and any implementation rules as issued by the NDRC from time to time (the "NDRC Post-issue Filing"). The Issuer will notify the Trustee if it does not file or cause to be filed such documents within this timeframe and such notification to the Trustee will be made within 10 PRC Business Days after such failure to complete the NDRC Post-issue Filing.

The Issuer shall within 10 PRC Business Days after submission of such NDRC Post-issue Filing provide the Trustee with a copy of the document(s) evidencing due filing with the NDRC. The Trustee shall have no obligation or duty to monitor and ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to the Bondholders or any other person for not doing so.

(d) Consolidation, Merger and Sale of Assets

The Issuer shall not consolidate with or merge into any other Person in a transaction in which the Issuer is not the surviving entity, or convey, transfer or lease its properties and assets substantially as an entirety to, any Person unless:

- (i) any Person formed by such consolidation or into which the Issuer is merged or to whom the Issuer has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the Cayman Islands, British Virgin Islands or Hong Kong and such Person expressly assumes by supplemental trust deeds all of the Issuer's obligations under the Trust Deed, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes;
- (ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and
- (iii) the Issuer has delivered to the Trustee an officers' certificate and an opinion of external legal counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental trust deeds comply with the Trust Deed and that all conditions precedent therein provided for relating to such transaction have been complied with.

In these Conditions:

"Capital Stock" means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation).

"Compliance Certificate" means a certificate in English of the Guarantor signed by an authorised signatory, in the form as set out in the Trust Deed, that as at a date (the **"Certification Date"**) not more than five days before the date of the certificate:

- (i) no Event of Default, or no event which, after notice or lapse of time or both, would become an Event of Default, had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and
- (ii) the Issuer has complied with all its obligations under the Trust Deed and the Bonds or, if any noncompliance had occurred, giving details of it;

“**Consolidated Affiliated Entity**” of any Person means any corporation, association or other entity which is or is required to be consolidated with such Person under Accounting Standards Codification subtopic 810-10, *Consolidation: Overall* (including any changes, amendments or supplements thereto) or, if such Person prepares its financial statements in accordance with accounting principles other than U.S. GAAP, the equivalent of Accounting Standards Codification subtopic 810-10, *Consolidation: Overall* under such accounting principles. Unless otherwise specified herein, each reference to a Consolidated Affiliated Entity will refer to a Consolidated Affiliated Entity of the Issuer.

“**Controlled Entity**” of any Person means a Subsidiary or a Consolidated Affiliated Entity of such Person.

“**Event of Default**” has the meaning ascribed to it in Condition 9.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**Indebtedness**” of any Person means, at any date, without duplication, (i) any outstanding indebtedness for or in respect of money borrowed (including bonds, debentures, notes or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument, excluding trade payables, (ii) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, and (iii) any of the foregoing items under (i) or (ii) of others guaranteed by such Person.

“**Issuer Audited Financial Reports**” means the annual audited consolidated statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows of the Issuer and its Controlled Entities together with any statements, reports (including any directors’ and auditors’ reports) and notes attached to or intended to be read with any of them.

“**Issuer Quarterly Financial Statements**” means the quarterly unaudited consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners’ equity of the Issuer and its Controlled Entities together with any statements, reports and the notes attached to or intended to be read with any of them, if any.

“**Issuer Semi-annual Financial Reports**” means the semi-annual unaudited but reviewed consolidated balance sheet, income statement, statement of cash flows and statements of changes in owners’ equity of the Issuer and its Controlled Entities together with any statements, reports (including any auditors’ review reports) and the notes attached to or intended to be read with any of them, if any.

“**Lien**” means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.

“**NDRC**” means the National Development and Reform Commission of the PRC or its local counterparts.

“**Non-recourse Obligation**” means indebtedness or other obligations substantially related to (i) the acquisition of assets (including any person that becomes a Controlled Entity) not previously owned by the Issuer or any of its Controlled Entities or (ii) the financing of a project involving the purchase, development, improvement or expansion of properties of the Issuer or any of its Controlled Entities, as to which the obligee with respect to such indebtedness or obligation has no recourse to the Issuer or any of its Principal Controlled Entities or to the Issuer or any such Principal Controlled Entity’s assets other than the assets which were acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (and the proceeds thereof).

“**Person**” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, government or any agency or political subdivision thereof or any other entity.

“**PRC**” means the People’s Republic of China, which shall for the purposes of these Conditions, exclude Hong Kong, Macau and Taiwan.

“**Principal Controlled Entities**” at any time shall mean one of the Issuer’s Controlled Entities (i) as to which one or more of the following conditions is/are satisfied:

- (a) its total revenue or (in the case of one of the Issuer’s Controlled Entities which has one or more Controlled Entities) consolidated total revenue attributable to the Issuer is at least 10% of the Issuer’s consolidated total revenue;
- (b) its net profit or (in the case of one of the Issuer’s Controlled Entities which has one or more Controlled Entities) consolidated net profit attributable to the Issuer (in each case before taxation and exceptional items) is at least 10% of the Issuer’s consolidated net profit (before taxation and exceptional items); or
- (c) its net assets or (in the case of one of the Issuer’s Controlled Entities which has one or more Controlled Entities) consolidated net assets attributable to the Issuer (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Issuer’s consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Issuer’s Controlled Entity and the Issuer’s then latest audited consolidated financial statements; *provided* that, in relation to paragraphs (a), (b) and (c) above:

- (1) in the case of a corporation or other business entity becoming a Controlled Entity after the end of the financial period to which the Issuer’s latest consolidated audited accounts relate, the reference to the Issuer’s then latest consolidated audited accounts and the Issuer’s Controlled Entities for the purposes of the calculation above shall, until the Issuer’s consolidated audited accounts for the financial period in which the relevant corporation or other business entity becomes a Controlled Entity are issued, be deemed to be a reference to the then latest consolidated audited accounts of the Issuer and its Controlled Entities adjusted to consolidate the latest audited accounts (consolidated in the case of a Controlled Entity which itself has Controlled Entities) of such Controlled Entity in such accounts;
- (2) if at any relevant time in relation to the Issuer or any Controlled Entity which itself has Controlled Entities, no consolidated accounts are prepared and audited, total revenue, net profit or net assets of the Issuer and/or any such Controlled Entity shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Issuer;
- (3) if at any relevant time in relation to any Controlled Entity, no accounts are audited, its net assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Controlled Entity prepared for this purpose by or on behalf of the Issuer; and
- (4) if the accounts of any Controlled Entity (not being a Controlled Entity referred to in proviso (1) above) are not consolidated with the Issuer’s accounts, then the determination of whether or not such Controlled Entity is a Principal Controlled Entity shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the Issuer’s consolidated accounts (determined on the basis of the foregoing); or

(ii) to which is transferred all or substantially all of the assets of a Controlled Entity which immediately prior to the transfer was a Principal Controlled Entity; *provided* that, with effect from such transfer, the Controlled Entity which so transfers its assets and undertakings shall cease to be a Principal Controlled Entity (but without prejudice to paragraph (i) above) and the Controlled Entity to which the assets are so transferred shall become a Principal Controlled Entity.

An officers' certificate delivered to the trustee certifying in good faith as to whether or not a Controlled Entity is a Principal Controlled Entity shall be conclusive in the absence of manifest error and the trustee shall be entitled to rely conclusively upon such officers' certificate (without further investigation or enquiry) and shall not be liable to any person for so accepting and relying on such officers' certificate.

"Relevant Indebtedness" of any Person means, at any date, Indebtedness incurred or issued outside the PRC which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market without regard, however, to whether such securities are sold through public offering or private placements, provided, however, that Relevant Indebtedness, for the avoidance of doubt, shall not include any indebtedness under any loan facilities or agreements (including any drawing down of any existing credit line or facility of the Issuer, or any of the Issuer's Controlled Entities).

"Relevant Period" means (a) in relation to the Issuer Audited Financial Reports, each period of twelve months ending on the last day of the Issuer's financial year (being 31 May of that financial year), (b) in relation to the Issuer Semi-annual Financial Reports, each period of six months ending on the last day of the Issuer's respective first half financial year (being 30 November of that financial year) and (c) in relation to the Issuer Quarterly Financial Statements, the first and third quarter of the Issuer's respective financial year (being 1 June to 31 August and 1 December to end of February of that financial year).

"Subsidiary" of any Person means (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or Persons performing similar functions) or (b) any partnership, joint venture limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), voting at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Issuer.

"U.S. GAAP" refers to generally accepted accounting principles in the United States of America.

5 Interest

The Bonds bear interest on their outstanding principal amount from and including July 2, 2020 at the rate of 2.125 per cent. per annum, payable semi-annually in arrear in equal instalments on January 2 and July 2 in each year (each an “**Interest Payment Date**”) commencing on January 2, 2021. The amount of interest payable on each Interest Payment Date shall be US\$10.625 per Calculation Amount (as defined below). Each Bond will cease to bear interest from (and including) the due date for redemption or repurchase unless, upon surrender of the Certificate representing such Bond, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgement) until (but excluding) whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all such Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period, it will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and in the case of an incomplete month, the number of days elapsed.

Interest in respect of any Bond shall be calculated per US\$1,000 in principal amount of the Bonds (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall (save as provided above in relation to equal instalments) be equal to the product of the

rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

In this Condition 5:

“**Interest Period**” means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date.

“**Issue Date**” means the initial issuance date of the Bonds.

6 Redemption and Purchase

(a) *Final Redemption*

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on July 2, 2025 (the “**Maturity Date**”). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) *Redemption for Taxation Reasons*

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice in writing to the Bondholders, the Trustee and the Agents (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if

- (i) the Issuer informs the Trustee in writing immediately prior to the giving of such notice that it has or will on the next Interest Payment Date become obliged to pay Additional Amounts as provided in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8), or any change in an existing official position regarding the application or interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction) or the statement of a new official position with respect to such laws or regulations by a competent taxing authority, which change or amendment becomes effective, or in the case of a statement of an official position, is announced, on or after Issue Date, and

- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it (provided that changing the jurisdiction of incorporation of the Issuer shall be deemed not to be a reasonable measure), *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due.

Prior to the giving of any notice of redemption pursuant to this Condition 6(b), the Issuer shall deliver to the Trustee:

- (i) a certificate signed by any one Director of the Issuer stating that the obligation referred to in Condition 6(b)(i) above cannot be avoided by the Issuer taking reasonable measures available to it, and
- (ii) an opinion of counsel of recognised standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from a change, amendment or the stating of a new official position referred to in Condition 6(b)(i) above.

The Trustee shall be entitled (but shall not be obliged) to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in Condition 6(b)(ii) above, in which event it shall be conclusive and binding on the Bondholders.

(c) *Redemption at the Option of the Issuer*

At any time prior to June 2, 2025, on giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and to the Agents and to the Bondholders in accordance with Condition 17, the Issuer may at any time redeem the Bonds, in whole or in part, at the Make Whole Price as of, and accrued and unpaid interest, if any, to (but excluding), the redemption date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice.

At any time on or after June 2, 2025, on giving not less than 30 nor more than 60 days' Optional Redemption Notice to the Trustee and to the Agents and to the Bondholders in accordance with Condition 17, the Issuer may at any time redeem the Bonds, in whole or in part, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued and unpaid interest, if any, to (but excluding), the Optional Redemption Date specified in the Optional Redemption Notice.

In this Condition 6(c):

"**Comparable Treasury Issue**" means the U.S. Treasury security having a maturity comparable to the Maturity Date, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the Maturity Date.

"**Comparable Treasury Price**" means, with respect to any Optional Redemption Date:

- (i) the average of the Reference Treasury Dealer Quotations for such Optional Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations; or
- (ii) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

“**Make Whole Price**” means, with respect to a Bond at the Optional Redemption Date, the amount calculated by the Quotation Agent to be the greater of (1) the present value of the principal amount of the Bonds to be redeemed, assuming a scheduled repayment thereof on the Maturity Date plus all required remaining scheduled interest payments due on such Bond through the Maturity Date (but excluding accrued and unpaid interest to the Optional Redemption Date), computed using a discount rate equals to the Treasury Rate plus 30 basis points, and (2) the principal amount of such Bonds.

“**Quotation Agent**” means the Reference Treasury Dealer selected by the Issuer and notified in writing to the Trustee.

“**Reference Treasury Dealer**” means each of any three investment banks of recognised standing that is a primary U.S. Government securities dealer in New York City, selected and appointed by the Issuer in good faith and notified in writing to the Trustee and the Quotation Agent.

“**Reference Treasury Dealer Quotations**” means, with respect to each Reference Treasury Dealer and any Optional Redemption Date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Quotation

Agent by such Reference Treasury Dealer at 5:00 p.m. (New York time) on the third business day preceding such Optional Redemption Date.

“**Treasury Rate**” means, with respect to any Optional Redemption Date, the rate per annum equal to: (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the applicable Comparable Treasury Issue; *provided* that, if no maturity is within three months before or after the remaining life of the Bonds to be redeemed, yields for the two published maturities most closely corresponding to the applicable Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from those yields on a straight line basis, rounding to the nearest month; or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the applicable Comparable Treasury Issue, calculated using a price for the applicable Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the related Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third business day preceding the redemption date.

(d) Repurchase Upon a Triggering Event

Upon a Triggering Event, the Issuer will be required to make an offer to repurchase (a “**Triggering Event Offer**”) all or, at the holder’s option, any part (equal to US\$200,000 or multiples of US\$1,000 in excess thereof), of each holder’s Bonds at a price in cash equal to 101 per cent. of the principal amount of the Bonds to be repurchased, plus accrued and unpaid interest on the principal amount of Bonds being repurchased to (but excluding) the date of repurchase (the “**Triggering Event Payment**”).

Within 30 calendar days following a Triggering Event, the Issuer will be required to give written notice to holders and to the Trustee and to the Agents describing the transaction or transactions that constitute the Triggering Event and offering to repurchase the Bonds on the date specified in the notice, which date will be no earlier than 30 calendar days and no later than 60 calendar days from the date such notice is given (the “**Triggering Event Payment Date**”).

On the Triggering Event Payment Date, the Issuer will be required, to the extent lawful, to:

- (i) accept for payment all Bonds or portions of the Bonds properly tendered pursuant to the Triggering Event Offer;
- (ii) deposit with the relevant paying agent one Business Day prior to the Triggering Event Payment Date an amount equal to the Triggering Event Payment in respect of all Bonds or portions of the Bonds properly tendered; and
- (iii) deliver or cause to be delivered to the trustee the Bonds properly accepted together with an officers’ certificate stating the aggregate principal amount of the Bonds being purchased by the Issuer.

The Issuer will not be required to make a Triggering Event Offer upon a Triggering Event

if a third party makes such an offer substantially in the manner, at the times and in compliance with the requirements for a Triggering Event Offer (and for at least the same purchase price payable in cash) and such third party purchases all Bonds properly tendered and not withdrawn under its offer. In the event that such third party terminates or defaults its offer, the Issuer will be required to make a Triggering Event Offer treating the date of such termination or default as though it were the date of the Triggering Event.

A holder of Bonds will have no right to require the Issuer to repurchase portions of Bonds if it would result in the issuance of new Bonds, representing the portion not repurchased, in an amount of less than US\$200,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of Bonds pursuant to this covenant.

In this Condition 6(e):

“**Group**” means the Issuer and its Controlled Entities.

“**Triggering Event**” means:

- (i) any change in or amendment to the laws, regulations and rules of the PRC or the official interpretation or official application thereof (“**Change in Law**”) that results in (x) the Group (as in existence immediately subsequent to such Change in Law), as a whole, being legally prohibited from operating substantially all of the business operations conducted by the Group (as in existence immediately prior to such Change in Law) as of the last date of the period described in the Issuer’s consolidated financial statements for the most recent fiscal quarter and (y) the Issuer being unable to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law) in the same manner as reflected in the Issuer’s consolidated financial statements for the most recent fiscal quarter; and

- (ii) the Issuer has not furnished to the trustee, prior to the date that is twelve months after the date of the Change in Law, an opinion from an independent financial advisor or an external legal counsel stating either (1) the Issuer is able to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law), taken as a whole, as reflected in the Issuer's consolidated financial statements for the most recent fiscal quarter (including after giving effect to any corporate restructuring or reorganization plan of the Issuer) or (2) such Change in Law would not materially adversely affect the Issuer's ability to make principal, premium (if any) and interest payments on the Bonds when due.

(e) Purchase

The Issuer and the Issuer's Controlled Entities may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such Controlled Entity, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Conditions 9, (a) and 14.

(f) Cancellation

All Certificates representing Bonds purchased by or on behalf of the Issuer shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

(g) No duty to monitor

Neither the Trustee nor any of the Agents shall be obliged to take any steps to ascertain whether a Triggering Event or Event of Default has occurred or to monitor the occurrence of any Triggering Event or Event of Default, and shall not be liable to the Bondholders or any other person for not doing so.

(h) Calculations

Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption, including without limitation the Make Whole Price, and shall not be liable to the Bondholders or any other person for not doing so.

7 Payments

(a) Method of Payment

- (i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Paying Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Certificates) in the manner provided in Condition 1(a)(ii).

- (ii) Interest on each Bond shall be paid to the person shown on the Register at the close of business on the fifteenth business day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Bond shall be made in U.S. dollars by cheque drawn on a bank and mailed (at the expense of the Issuer) to the holder (or to the first named of joint holders) of such Bond at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in U.S. dollars maintained by the payee with a bank. In this Condition 1(a)(ii), “**business day**” means a day, other than a Saturday, a Sunday or a public holiday, on which the Registrar is open for business in the place of its specified office.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the Holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

- (iii) If the amount of principal being paid upon surrender of the relevant Certificate is less than the outstanding principal amount of such Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

(b) Payments subject to Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Bondholders in respect of such payments.

Notwithstanding any other provision of these Conditions, any amounts to be paid by or on behalf of the Issuer in respect of the Bonds will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any Treasury regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any legislation, regulations or official guidance implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Issuer, the Trustee, the Principal Paying Agent nor any other person will be required to pay any Additional Amounts in respect of FATCA Withholding.

(c) **Payment Initiation**

Where payment is to be made by transfer to an account in U.S. dollars, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated, and, where payment is to be made by cheque, the cheque will be mailed (at the expense of the Issuer), on the due date or, if that is not a Payment Business Day, on the first following day which is a Payment Business Day or, in the case of payments of principal where the relevant Certificate has not been surrendered at the specified office of any Paying Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Agents**

The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer reserves the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar and (iii) a Transfer Agent.

Notice of any such termination or appointment or any change of any specified office shall promptly be given by the Issuer to the Bondholders.

(e) **Delay in Payment**

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a cheque mailed in accordance with Condition 1(a)(ii) arrives after the due date for payment.

(f) **Non-Payment Business Days**

If any date for payment in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment.

In this Condition 0, (i) “**Payment Business Day**” means a day (other than a Saturday, a Sunday or a public holiday) on which banks and foreign exchange markets are open for business in Hong Kong, London, New York City and the place in which the specified office of the Principal Paying Agent is located and where payment is to be made by transfer to an account maintained with a bank in U.S. dollars, the place on which foreign exchange transactions may be carried on in U.S. dollars in the principal financial centre of the country of such currency.

8 Taxation

All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges (collectively, “**Taxes**”) of whatever nature imposed, levied, collected, withheld or assessed by or within Cayman Islands, PRC, Hong Kong or any other jurisdiction in which the Issuer is incorporated or resident for tax purposes or any political subdivision or authority therein or thereof having power to tax (each, a “**Relevant Jurisdiction**”), unless such withholding or deduction is required by law.

In the event that any deduction or withholding is required, the Issuer shall pay such additional amounts (“**Additional Amounts**”) as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Amounts shall be payable in respect of any Bond:

- (i) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection (whether present or former) between the holder or beneficial owner of a Bond and the Relevant Jurisdiction other than merely holding such Bond or receiving principal, premium (if any) or interest in respect thereof (including such holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein);
- (ii) in respect of any Bond presented for payment (where presentation is required) more than 30 days after the Relevant Date, except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period;
- (iii) in respect of any Taxes that would not have been imposed, deducted or withheld but for a failure of the holder or beneficial owner of a Bond to comply with a timely request by the Issuer addressed to the holder to provide information concerning such holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such holder;
- (iv) in respect of any Taxes imposed as a result of a Bond being presented for payment (where presentation is required) in the Relevant Jurisdiction, unless such Bond could not have been presented for payment elsewhere;
- (v) in respect of any estate, inheritance, gift, sale, transfer, personal property or similar Taxes;
- (vi) to any holder of a Bond that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the holder thereof;
- (vii) with respect to any withholding or deduction that is imposed in connection with Sections 1471-1474 of the Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations thereunder (“**FATCA**”), any intergovernmental agreement between the United States and any other jurisdiction implementing or relating to FATCA or any non-U.S. law, regulation or guidance enacted or issued with respect thereto; and
- (viii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Bonds;

References in these Conditions to principal, premium and interest shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Bondholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction.

“**Relevant Date**” in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender of the Certificate representing such Bond being made in accordance with the Conditions, such payment will be made, *provided that* payment is in fact made upon such surrender.

At least 30 days prior to each date on which any payment under or with respect to the Bonds is due and payable, if the Issuer will be obligated to pay Additional Amounts with respect to such payment, the Issuer will deliver to the Trustee and the Principal Paying Agent a certificate signed by a director or authorised signatory of the Issuer stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to the holders on such payment date.

In addition, the Issuer will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Bonds, or any documentation with respect thereto.

9 Events of Default

If an Event of Default (as defined below) occurs, the Trustee at its sole and absolute discretion may, and if so requested in writing by holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution, shall (*provided that* the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable. Upon any such notice being given to the Issuer, the Bonds shall immediately become due and payable at their principal amount together (if applicable) with accrued interest. An “**Event of Default**” occurs if:

- (a) **Non-Payment of Principal:** the Issuer fails to pay principal or premium (if any) of the Bonds when due (whether at stated maturity or upon acceleration, repurchase, redemption or otherwise); or
- (b) **Non-Payment of Interest:** the Issuer fails to pay interest on the Bonds within 30 days after the due date for such payment; or
- (c) **Breach of Other Obligations:** the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Bonds or the Trust Deed or the Agency Agreement and such default remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer; or

- (d) **Cross-Default:** the Issuer or any Principal Controlled Entity defaults in the payment of principal, interest or premium when due under any other instruments of Indebtedness of the Company or any Principal Controlled Entity having an aggregate outstanding principal amount exceeding the greater of (x) US\$100 million (or the dollar equivalent thereof) and (y) 2.5% of the Issuer's Total Equity, whether such Indebtedness now exists or shall hereafter be created, which default results (A) in such Indebtedness becoming or being declared due and payable or (B) from a failure to pay the principal of any such Indebtedness when due and payable at its stated maturity, upon redemption, upon required purchase, upon declaration of acceleration or otherwise and, in each case, such default continues for more than 30 days after the expiration of any grace period or extension of time for payment applicable thereto; provided that any such Event of Default shall be deemed cured and not continuing upon payment of such Indebtedness, rescission of such declaration of acceleration or waiver or with consent of the lender; or
- (e) **Unsatisfied Judgement:** one or more final judgments or orders for the payment of money are rendered against the Issuer or any of the Issuer's Principal Controlled Entities and are not paid or discharged, and there is a period of 90 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons (net of any amounts that the Issuer's insurance carriers have paid or agreed to pay with respect thereto under applicable policies) to exceed the greater of (x) US\$100 million (or the dollar equivalent thereof) and (y) 2.5% of the Issuer's Total Equity, during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or
- (f) **Insolvency:** the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer or any of the Issuer's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or (ii) a decree or order adjudging the Issuer or any of the Issuer's Principal Controlled Entities bankrupt or insolvent, or approving as final and non-appealable a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of the Issuer or any of the Issuer's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of the Issuer's Principal Controlled Entities or of any substantial part of their respective property, or ordering the winding up or liquidation of their respective affairs (or any similar relief granted under any foreign laws), and in any such case the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive calendar days; or
- (g) **Winding-up:** the commencement by the Issuer or any of the Issuer's Principal Controlled Entities of a voluntary case or proceeding under any applicable federal, state or foreign bankruptcy, insolvency or other similar law or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by the Issuer or any Principal Controlled Entity to the entry of a decree or order for relief in respect of the Issuer or any of the Issuer's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or the commencement of any bankruptcy or insolvency case or proceeding against the Issuer or any Principal Controlled Entity, or the filing by the Issuer or any Principal Controlled Entity of a petition or answer or consent seeking reorganization or relief with respect to the Issuer or any of the Issuer's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or the consent by the Issuer or any Principal Controlled Entity to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer or any of the Issuer's Principal Controlled Entities or of any substantial part of their respective property pursuant to any such law, or the making by the Issuer or any of the Issuer's Principal Controlled Entities of a general assignment for the benefit of creditors in respect of any indebtedness as a result of an inability to pay such indebtedness as it becomes due, or the admission by the Issuer or any of the Issuer's Principal Controlled Entities in writing of the Issuer's inability to pay its debts generally as they become due, or the taking of corporate action by the Issuer or any of the Issuer's Principal Controlled Entities that resolves to commence any such action; or

- (h) **Illegality:** the Bonds, the Trust Deed or the Agency Agreement is or becomes or is claimed by the Issuer to be unenforceable, invalid or ceases to be in full force and effect otherwise than is permitted by the Trust Deed or the Agency Agreement; or
- (i) **Analogous Events:** any event occurs which under the laws of England or the PRC has an analogous effect to any of the events referred to in any of Conditions 9(e) to 9(h) (both inclusive).

In this Condition 9, “**Total Equity**” as of any date, means the total equity attributable to the Issuer’s shareholders on a consolidated basis determined in accordance with U.S. GAAP, as shown on the Issuer’s consolidated balance sheet for the most recent fiscal quarter.

10 Prescription

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal or premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

11 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 Meetings of Bondholders, Modification and Waiver

(a) *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee (subject to it first being indemnified, pre-funded and/or provided with security to its satisfaction) upon the request in writing of Bondholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Bonds. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, or (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding.

The Trust Deed provides that (i) a resolution in writing signed by the holders of not less than 90 per cent. in aggregate principal amount of the Bonds outstanding (a **Written Resolution**); and (ii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the Bondholders of not less than 66 per cent. in aggregate principal amount of the Bonds outstanding (an **Electronic Consent**) shall in each case for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. A Written Resolution may be contained in one document or several documents in the same form, each signed by one or more Bondholders. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting. A Written Resolution and/or Electronic Consent will be binding on all Bondholders whether or not they participated in such Written Resolution and/or Electronic Consent, as the case may be.

(b) ***Modification of the Conditions, the Trust Deed, the Agency Agreement***

The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed or the Agency Agreement that is, in its opinion, of a formal, minor or technical nature or to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer, failing whom, the Issuer, to the Bondholders as soon as practicable. The Issuer shall notify as soon as possible the Rating Agencies of any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement.

(c) ***Entitlement of the Trustee***

In connection with the exercise of its functions, rights, powers and/or discretions (including but not limited to those referred to in this Condition 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders, and the Trustee shall not be entitled to require on behalf of any Bondholder, nor shall any Bondholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

(d) ***Directions from Bondholders***

Notwithstanding anything to the contrary in the Bonds, the Trust Deed and/or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions or the Trust Deed and/or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Bondholders by way of an Extraordinary Resolution and shall have been indemnified and/or provided with security and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

13 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities having the same terms and conditions as the existing Bonds in all respects (or in all respects except for the first payment of interest on them and the timing for complying with the requirements set out in these Conditions in relation to the NDRC Post-issue Filings) and so that such further issue shall be consolidated and form a single series with the existing Bonds; *provided* that the Issuer shall undertake to comply with Condition 4 with respect to such new bonds and “Issue Date” as used therein and in Condition 6(e) shall be deemed to mean the initial issue date of such new bonds.

References in these Conditions to the existing Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 13. However, such further securities may only be issued if (i) the Rating Agencies have been informed of such issue; (ii) such issue will not result in any adverse change in the then credit rating of the Bonds; and (iii) such supplemental documents are executed and further opinions are obtained as the Trustee may require, as further set out in the Trust Deed.

14 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its sole and absolute discretion and without further notice, institute such actions, steps or proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Agency Agreement and the Bonds, but it need not take any such actions, steps or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15 Indemnification of the Trustee

Under the Trust Deed, the Trustee is entitled to be indemnified and/or provided with security and/or pre-funded to its satisfaction and relieved from responsibility in certain circumstances and to be paid its fees, costs and expenses in priority to the claims of the Bondholders. In addition, the Trustee and the Agents and their respective directors and officers are entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Bondholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

The Trustee may rely without liability to Bondholders or to any other person on a report, advice, opinion, confirmation or certificate or any advice from any lawyers, valuers, accountants (including auditors and surveyors), financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely (without further investigation or enquiry) on any such report, confirmation, opinion or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee, the Agents and the Bondholders.

16 Currency Indemnity

US dollar is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than US dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer, as applicable, to the extent of the US dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that US dollar amount is less than the US dollar amount expressed to be due to the recipient under any Bond, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Bondholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any other judgement, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgement or order.

17 Notices

Notices to the holders of Bonds shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Any such notice shall be deemed to have been given on the date of such publication (being a day other than a Saturday, a Sunday or a public holiday) or, if published more than once or on different dates, on the first date on which such publication is made.

Until such time as any definitive certificates are issued and so long as the Global Certificate is held in its entirety on behalf of Euroclear and Clearstream, any notice to the Bondholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

18 **Contracts (Rights of Third Parties) Act 1999**

Except as otherwise provided for in the Trust Deed, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy which exists or is available apart from such Act and is without prejudice to the rights of the Bondholders as contemplated in these Conditions.

19 **Governing Law and Jurisdiction**

(a) ***Governing Law***

The Trust Deed, the Bonds and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) ***Jurisdiction***

The courts of Hong Kong are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with any Bonds ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed and the Agency Agreement, the Issuer has irrevocably submitted to the exclusive jurisdiction of the courts of Hong Kong.

(c) ***Waiver of Immunity***

To the extent that the Issuer may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

(d) ***Agent for Service of Process***

The Issuer has irrevocably appointed Law Debenture Corporate Services Inc. as its authorised agent at Suite 1301, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong to receive service of process in any proceedings in Hong Kong based on the Trust Deed, the Agency Agreement and/or any of the Bonds.

Form of Transfer

For value received the undersigned transfers to

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE)

[•] principal amount of the Bonds represented by this Certificate, and all rights under them.

Dated _____

Signed _____

_____ Certifying Signature

Notes:

- 1 The signature of the person effecting a transfer shall conform to a list of duly authorised specimen signatures supplied by the holder of the Bonds represented by this Certificate or (if such signature corresponds with the name as it appears on the face of this Certificate) be certified by a notary public or a recognised bank or be supported by such other evidence as a Transfer Agent or the Registrar may require.
- 2 A representative of the Bondholder should state the capacity in which he signs e.g. executor.

[TO BE COMPLETED BY TRANSFEREE:

[INSERT ANY REQUIRED TRANSFEREE REPRESENTATIONS, CERTIFICATIONS ETC.]]

PRINCIPAL PAYING AGENT
DEUTSCHE BANK AG, HONG KONG BRANCH

Level 52 International Commerce Centre,
1 Austin Road West
Kowloon
Hong Kong

REGISTRAR AND TRANSFER AGENT
DEUTSCHE BANK AG, HONG KONG BRANCH

Level 52 International Commerce Centre,
1 Austin Road West
Kowloon
Hong Kong

Schedule 2
Terms and Conditions of the Bonds

[Please see the back of Schedule 1 – Part B – Form of Certificate]

Schedule 3
Provisions for Meetings of Bondholders

Interpretation

- 1 In this Schedule:
- 1.1 references to a meeting are to a meeting of Bondholders and include, unless the context otherwise requires, any adjournment;
- 1.2 “**agent**” means a proxy or a representative;
- 1.3 “**Electronic Consent**” has the meaning set out in paragraph 21;
- 1.4 “**Extraordinary Resolution**” means a resolution passed (a) at a meeting duly convened and held in accordance with this Trust Deed by a majority of at least 66 per cent. of the votes cast, (b) by a Written Resolution or (c) by an Electronic Consent;
- 1.5 “**Written Resolution**” means a resolution in writing signed by the holders of not less than 90 per cent. in nominal amount of the Bonds outstanding; and
- 1.6 references to persons representing a proportion of the Bonds are to Bondholders or agents holding or representing in the aggregate at least that proportion in principal amount of the Bonds for the time being outstanding.

Appointment of Proxy or Representative

- 2 A proxy or representative may be appointed in the following circumstances:
- 2.1 A holder of Bonds may, by an instrument in writing in the English language (a “**form of proxy**”) signed by the holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation and delivered to the specified office of the Registrar or the Transfer Agent not less than 48 hours before the time fixed for the relevant meeting, appoint the person (a “**proxy**”) to act on his or its behalf in connection with any meeting of the Bondholders and any adjourned such meeting.
- 2.2 Any holder of Bonds which is a corporation may, by delivering to any Agent not later than 48 hours before the time fixed for any meeting a resolution of its directors or other governing body, authorise any person to act as its representative (a “**representative**”) in connection with any meeting of the Bondholders and any adjourned such meeting.
- 2.3 If the holder of a Bond is an Alternative Clearing System or a nominee of an Alternative Clearing System and the rules or procedures of such Alternative Clearing System so require, such nominee or Alternative Clearing System may appoint proxies in accordance with, and in the form used, by such Alternative Clearing System as part of its usual procedures from time to time in relation to meetings of Bondholders. Any proxy so appointed may, by an instrument in writing in the English language in the form available from the specified office of the Registrar, or in such other form as may have been approved by the Trustee at least seven days before the date fixed for a meeting, signed by the proxy or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation and delivered to the Registrar not later than 48 hours before the time fixed for any meeting, appoint the Principal Paying Agent or any employee of it nominated by it (the “**sub-proxy**”) to act on his or its behalf in connection with any meeting or proposed meeting of Bondholders. All references to “proxy” or “proxies” in this Schedule other than in this sub-paragraph 2.3 shall be read so as to include references to “sub-proxy” or “sub-proxies”.

- 2.4 For so long as the Bonds are eligible for settlement through an Alternative Clearing System's book-entry settlement system and the rules or procedures of such Alternative Clearing System so require, the Issuer may fix a record date for the purpose of any meeting, provided such record date is no more than 10 days prior to the date fixed for such meeting which shall be specified in the notice convening the meeting.
- 2.5 Any proxy appointed pursuant to sub-paragraph 2.1 or sub-paragraph 2.3 above or representative appointed pursuant to sub-paragraph 2.2 above shall, so long as such appointment remains in full force, be deemed, for all purposes in connection with the relevant meeting or adjourned meeting of the Bondholders, to be the holder of the Bonds to which such appointment relates and the holder of the Bonds shall be deemed for such purposes not to be the holder or owner, respectively.

Powers of Meetings

- 3 A meeting shall, subject to the Conditions and without prejudice to any powers conferred on other persons by this Trust Deed, have power by Extraordinary Resolution:
- 3.1 to sanction any proposal by the Issuer or the Trustee for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Bondholders against the Issuer, whether or not those rights arise under this Trust Deed;
- 3.2 to sanction the exchange or substitution for the Bonds of, or the conversion of the Bonds into, shares, bonds or other obligations or securities of the Issuer or any other entity;
- 3.3 to assent to any modification of this Trust Deed, the Agency Agreement or the Bonds proposed by the Issuer or the Trustee;
- 3.4 to authorise anyone to concur in and do anything necessary to carry out and give effect to an Extraordinary Resolution;
- 3.5 to give any authority, direction or sanction required to be given by Extraordinary Resolution;
- 3.6 to appoint any persons (whether Bondholders or not) as a committee or committees to represent the Bondholders' interests and to confer on them any powers or discretions which the Bondholders could themselves exercise by Extraordinary Resolution;
- 3.7 to approve a proposed new Trustee and to remove a Trustee; and
- 3.8 to discharge or exonerate the Trustee from any liability in respect of any act or omission for which it may become responsible under this Trust Deed or the Bonds,
- provided that the special quorum provisions in paragraph 10 shall apply to any Extraordinary Resolution (a "**special quorum resolution**") for the purpose of sub-paragraph 3.2 or for the purpose of making a modification to this Trust Deed or the Bonds which would have the effect of:
- (i) modifying the maturity date of the Bonds or the dates on which interest is payable on them; or
 - (ii) reducing or cancelling the principal amount of, or interest on, the Bonds; or
 - (iii) changing the currency of payment of the Bonds; or

- (iv) modifying the provisions in this Schedule concerning the quorum required at any meeting or the majority required to pass an Extraordinary Resolution; or
- (v) amending this proviso.

Convening a Meeting

- 4 The Issuer or the Trustee may at any time convene a meeting. If it receives a written request by Bondholders holding at least 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding, the Trustee shall convene a meeting. Every meeting shall be held at a time and place approved by the Trustee.
- 5 At least 21 days' notice (exclusive of the day on which the notice is given and of the day of the meeting) shall be given to the Bondholders. A copy of the notice shall be given by the party convening the meeting to the other parties. The notice shall specify the day, time and place of meeting and, unless the Trustee otherwise agrees, the nature of the resolutions to be proposed and shall explain how Bondholders may appoint proxies or representatives and the details of the time limits applicable.

Chairman

- 6 The chairman of a meeting shall be such person as the Trustee may nominate in writing, but if no such nomination is made or if the person nominated is not present within 15 minutes from the time fixed for the meeting, the Bondholders or agents present shall choose one of their number to be chairman, failing which the Issuer may appoint a chairman.
- 7 The chairman may, but need not, be a Bondholder or agent. The chairman of an adjourned meeting need not be the same person as the chairman of the original meeting.

Attendance

- 8 The following may attend and speak at a meeting:
 - 8.1 Bondholders and agents;
 - 8.2 the chairman; and
 - 8.3 the Issuer and the Trustee (through their respective representatives) and their respective financial and legal advisers.No one else may attend or speak.

Quorum and Adjournment

- 9 No business (except choosing a chairman) shall be transacted at a meeting unless a quorum is present at the commencement of business. If a quorum is not present within 15 minutes from the time initially fixed for the meeting, it shall, if convened on the requisition of Bondholders or if the Issuer and the Trustee agree, be dissolved. In any other case it shall be adjourned until such date, not less than 14 nor more than 42 days later, and time and place as the chairman may decide. If a quorum is not present within 15 minutes from the time fixed for a meeting so adjourned, the meeting shall be dissolved.

10 Two or more Bondholders or agents present in person shall be a quorum:

10.1 in the cases marked “No minimum proportion” in the table below, whatever the proportion of the Bonds which they represent; and

10.2 in any other case, only if they represent the proportion of the Bonds shown by the table below.

Column 1	Column 2	Column 3
Purpose of meeting	Any meeting except one referred to in column 3	Meeting previously adjourned through want of a quorum
	Required proportion	Required proportion
To pass a special quorum resolution	Not less than 66 per cent.	Not less than 25 per cent.
To pass any other Extraordinary Resolution	More than 50 per cent.	No minimum proportion
Any other purpose	Not less than 10 per cent.	No minimum proportion

11 The chairman may, with the consent of (and shall if directed by) a meeting, adjourn the meeting from time to time and from place to place. Only business which could have been transacted at the original meeting may be transacted at a meeting adjourned in accordance with this paragraph or paragraph 9.

12 At least 10 days’ notice of a meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting and that notice shall state the quorum required at the adjourned meeting. No notice need, however, otherwise be given of an adjourned meeting.

Voting

13 Each question submitted to a meeting shall be decided by a show of hands unless a poll is (before, or on the declaration of the result of, the show of hands) demanded by the chairman, the Issuer, the Trustee or one or more persons representing 2 per cent. of the Bonds.

14 Unless a poll is demanded, a declaration by the chairman that a resolution has or has not been passed shall be conclusive evidence of the fact without proof of the number or proportion of the votes cast in favour of or against it.

15 If a poll is demanded, it shall be taken in such manner and (subject as provided below) either at once or after such adjournment as the chairman directs. The result of the poll shall be deemed to be the resolution of the meeting at which it was demanded as at the date it was taken. A demand for a poll shall not prevent the meeting continuing for the transaction of business other than the question on which it has been demanded.

16 A poll demanded on the election of a chairman or on a question of adjournment shall be taken at once.

17 On a show of hands, every person who is present in person and who produces a Bond or is a proxy has one vote. On a poll, every such person has one vote for €1,000 in principal amount of Bonds so produced or for which he is a proxy or representative. Without prejudice to the obligations of proxies, a person entitled to more than one vote need not use them all or cast them all in the same way.

- 18 In case of equality of votes, the chairman shall both on a show of hands and on a poll have a casting vote in addition to any other votes which he may have.

Effect and Publication of an Extraordinary Resolution

- 19 An Extraordinary Resolution shall be binding on all the Bondholders, whether or not present at the meeting, and each of them shall be bound to give effect to it accordingly. The passing of such a resolution shall be conclusive evidence that the circumstances justify its being passed. The Issuer shall give notice of the passing of an Extraordinary Resolution to Bondholders within 14 days but failure to do so shall not invalidate the resolution.

Minutes

- 20 Minutes shall be made of all resolutions and proceedings at every meeting and, if purporting to be signed by the chairman of that meeting or of the next succeeding meeting, shall be conclusive evidence of the matters in them. Until the contrary is proved, every meeting for which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

Written Resolution and Electronic Consent

- 21 Subject to the following sentence, a Written Resolution may be contained in one document or in several documents in like form, each signed by or on behalf of one or more of the Bondholders.

For so long as the Bonds are in the form of a Global Certificate registered in the name of any nominee for one or more of Euroclear, Clearstream or another clearing system, then, in respect of any resolution proposed by the Issuer or the Trustee:

- (i) where the terms of the proposed resolution have been notified to the Bondholders through the relevant clearing system(s), each of the Issuer and the Trustee shall be entitled (but not obliged) to rely upon approval of such resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 66 per cent. in aggregate principal amount of the Bonds outstanding (“**Electronic Consent**”). None of the Issuer or the Trustee shall be liable or responsible to anyone for such reliance; and
- (ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing systems with entitlements to such Global Certificate and/or, (b) where the accountholders hold any such entitlement on behalf of another person, or written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear and Clearstream or any other relevant alternative clearing system (the “relevant clearing system”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Bondholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Bonds is clearly identified together with the amount of such holding. None of the Issuer, the Trustee or the Agents shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

A Written Resolution and/or Electronic Consent shall take effect as an Extraordinary Resolution. A Written Resolution and/or Electronic Consent will be binding on all Bondholders, whether or not they participated in such Written Resolution and/or Electronic Consent.

Trustee's Power to Prescribe Regulations

- 22 Subject to all other provisions in this Trust Deed, the Trustee may, without the consent of the Bondholders, prescribe such further regulations regarding the holding of meetings and attendance and voting at them as it in its sole discretion determines including (without limitation) such requirements as the Trustee thinks necessary to satisfy itself that the persons who purport to make any requisition in accordance with this Trust Deed are entitled to do so and to satisfy itself that persons who purport to attend or vote at a meeting are entitled to do so.

**Schedule 4
Form of Compliance Certificate**

Directors' Certificate (Clause 6.7)

To: [•]

[DATE]

Dear Sirs

U.S.\$300,000,000 2.125 per cent. Bonds due 2025

This certificate is delivered to you in accordance with Clause 6.7 of the Trust Deed dated July 2, 2020 (the “**Trust Deed**”) and made between New Oriental Education & Technology Group Inc. (the “**Issuer**”) and DB Trustees (Hong Kong) Limited (the “**Trustee**”). All words and expressions defined in the Trust Deed shall (save as otherwise provided herein or unless the context otherwise requires) have the same meanings herein.

I, on behalf of the Issuer, hereby certify that, to the best of my knowledge, information and belief (having made all reasonable enquiries):

- (a) no Event of Default under Condition 9 had occurred or is continuing in respect of the Issuer and its Controlled Entities or (as the case may be) its Principal Controlled Entities during the year ended [•]; and
- (b) the Issuer has complied in all respects with its obligations under the Trust Deed and the Bonds on or before the date hereof.

This certificate is given without personal responsibility.

For and on behalf of
New Oriental Education & Technology Group Inc.

Director

This Deed is delivered on the date stated at the beginning.

Executed as a deed for and on behalf of)

New Oriental Education & Technology Group Inc.)

By:)

)

)

Title:)

This Deed is delivered on the date stated at the beginning.

Executed as a deed for and on behalf of)

New Oriental Education & Technology Group Inc.)

By: /s/ Zhihui Yang)

Zhihui Yang)

Title: CFO)

)

Witness: /s/ Huang Sha

Witness: Huang Sha

Title: Business Analyst

Address: 9F, New Oriental North Building, Haidian District, Beijing China.

[Signature Page to Trust Deed]

EXECUTED as a deed by

DB TRUSTEES (HONG KONG) LIMITED

[Company seal is affixed]

Authorised Signatory:

/s/ WANG Yaohui

WANG Yaohui

Authorised Signatory

Authorised Signatory:

/s/ Christina Nip

Christina Nip

Authorised Signatory

[Signature Page to Trust Deed]

Dated July 2, 2020

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

as Issuer

and

DB TRUSTEES (HONG KONG) LIMITED

as Trustee

and

DEUTSCHE BANK AG, HONG KONG BRANCH

as Principal Paying Agent, Registrar and Transfer Agent

AGENCY AGREEMENT

relating to

U.S.\$ 300,000,000 2.125 per cent. Bonds due 2025

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This Agreement is made on July 2, 2020 **between:**

- 1 NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.** (the “**Issuer**”);
- 2 DB TRUSTEES (HONG KONG) LIMITED**, as the trustee (the “**Trustee**”), which expression shall include all persons for the time being the trustee or trustees of the Trust Deed referred to in Recital (B) below;
- 3 DEUTSCHE BANK AKTIENGESELLSCHAFT, HONG KONG BRANCH** (incorporated in the Federal Republic of Germany & members’ liability is limited) whose specified office is at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, as principal paying agent (the “**Principal Paying Agent**”), registrar (the “**Registrar**”), transfer agent (the “**Transfer Agent**”), in each case which expressions shall include its permitted successors and assigns thereof in such capacities;

Whereas:

- (A) The Issuer proposes to issue U.S.\$ 300,000,000 2.125 per cent. Bonds due 2025.
- (B) The Bonds will be constituted by a Trust Deed (the “**Trust Deed**”) dated July 2, 2020 between the Issuer and the Trustee.
- (C) This is the Agency Agreement defined in the Trust Deed.

1 Interpretation

1.1 Definitions

Terms defined in the Conditions and the Trust Deed have the same meanings in this Agreement except where otherwise defined in this Agreement.

1.2 Construction of Certain References

References to:

- 1.2.1 principal and interest shall be construed in accordance with Condition 8; and
- 1.2.2 costs, charges, remuneration or expenses include any withholding value added, turnover or similar tax charged in respect thereof.

1.3 Headings

Headings shall be ignored in construing this Agreement.

1.4 Contracts

References in this Agreement to this Agreement or any other document are to this Agreement or those documents as amended, supplemented or replaced from time to time and include any document which amends, supplements or replaces them.

1.5 Schedules

The Schedules are part of this Agreement and have effect accordingly.

1.6 Contracts (Rights of Third Parties) Act 1999

Except as otherwise provided for in the Trust Deed, a person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act and is without prejudice to the rights of the Bondholders as contemplated in the Conditions.

2 Appointments

2.1 Appointment of Agents

- 2.1.1 The Issuer or, for the purposes of Clause 4.1, the Trustee appoints the Agents as its agents in respect of the Bonds in accordance with the Conditions at their respective specified offices referred to in the Bonds. Except in Clause 17, references to the Agents are to them acting solely through such specified offices. Each Agent accepts its appointment as agent of the Issuer in relation to the Bonds and shall only perform the duties required of it by the Conditions and this Agreement. The obligations of the Agents are several and not joint.
- 2.1.2 Each Agent shall be obliged to perform only such duties as are expressly set out in this Agreement and the Conditions. No Agent shall be obliged to perform additional duties unless it shall have previously agreed in writing to perform such duties. If the Conditions are amended on or after the date hereof in a way that affects the duties expressed to be performed by such Agent, it shall not be obliged to perform such duties as so amended unless it has first approved the relevant amendment in writing. No Agent shall be under any obligation to take any action under this Agreement that it expects will result in any expense to or liability of such Agent, the payment of which is not, in its opinion and at its sole discretion, assured to it.
- 2.1.3 For the avoidance of doubt, none of the Agents will assume any obligation or responsibility towards or relationship of agency or trust for or with any of the owners or holders of the Bonds or any other third party to this Agreement.

3 Issue of Bonds

3.1 Issue of Certificates

Upon receipt by the Principal Paying Agent of the information enabling it, and instructions, to do so, the Principal Paying Agent shall notify the Registrar of all relevant information, whereupon the Registrar shall complete one or more Certificates in an aggregate principal amount equal to that of the Bonds to be issued, (unless the Principal Paying Agent is to do so in its capacity as, or as agent for, the Registrar) authenticate each Certificate (or cause its agent on its behalf to do so) and deliver them to the Principal Paying Agent not later than the time specified by the Principal Paying Agent (which shall be no earlier than one Business Day after receipt by the Registrar of such instructions).

3.2 Delivery of Certificates

Immediately before the issue of the Global Certificate, the Registrar (or its agent on its behalf) shall authenticate it. Upon written instructions from the Issuer, the Registrar shall deliver the Global Certificate to DB Nominees (Hong Kong) Limited as Common Depositary for Euroclear and Clearstream, or to such other depositary, or nominee for any depositary, for Euroclear and Clearstream as shall have been agreed, on a delivery against payment basis.

The Principal Paying Agent shall immediately notify the Registrar if for any reason a Certificate is not delivered in accordance with the Issuer's instructions. Failing any such notification, the Registrar shall cause an appropriate entry to be made in the Register to reflect the issue of the Bonds to the person(s) whose name and address appears on each such Certificate on the Issue Date (if any).

3.3 Signing of Certificates

The Certificates shall be signed manually or in facsimile on behalf of the Issuer by a duly authorised signatory of the Issuer. Except in the case of any Global Certificate, the Issuer may, however, adopt and use the signature of any person who at the date of signing a Certificate is a duly authorized signatory of the Issuer even if, before the Certificate is issued, he ceases for whatever reason to hold such office. The Bonds in respect of which the Certificates are signed in such circumstances and duly authenticated by the Registrar or the Principal Paying Agent (acting in its capacity as, or as agent for, the Registrar) shall nevertheless represent valid and binding obligations of the Issuer.

3.4 Details of Certificates Delivered

As soon as practicable after delivering any Certificate, the Principal Paying Agent or the Registrar, as the case may be, shall supply to the Issuer and the other Agents all relevant details of the Certificates delivered, in such format as it shall from time to time agree with the Issuer.

3.5 Cancellation

If any Bond in respect of which information has been supplied under Clause 3.1 is not to be issued on the Issue Date, the Issuer shall as soon as practicable (and, in any event, prior to the Issue Date) notify the Registrar. Upon receipt of such notice, the Registrar shall not thereafter issue or release the relevant Certificate(s) but shall cancel and, unless otherwise instructed by the Issuer, destroy them and shall not make any entry in the Register in respect of them.

3.6 Outstanding Amount

The Principal Paying Agent shall, within five (5) Business Day upon written request from the Issuer signed by a director or the Trustee signed by its authorised signatory, inform such person in writing of the aggregate principal amount of the Bonds then outstanding at the time of such request.

3.7 Transfer of interests in the Global Certificate

Any transfer of an interest in the Bonds evidenced by the Global Certificate shall be effected in accordance with the rules and procedures of Euroclear, Clearstream and/or any relevant alternative clearing system, as applicable.

4 The Trustee

4.1 Agents to act for Trustee

The Agents shall, on notice in writing by the Trustee made at any time after an Event of Default has occurred and until notified in writing by the Trustee to the contrary, so far as permitted by applicable law or regulation:

- 4.1.1 act as agents of the Trustee under the Trust Deed and the Bonds on the terms of this Agreement (with consequential amendments as necessary and except that the Trustee's liability under this Agreement for the indemnification, remuneration and payment of out-of-pocket expenses of the Agents will be limited to the amounts for the time being held by the Trustee in respect of the Bonds on the terms of the Trust Deed and available for such purposes) and thereafter to hold all Bonds and all moneys, documents and records held by them in respect of the Bonds to the order of the Trustee; or
- 4.1.2 deliver all Certificates and all moneys, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee directs in such notice or subsequently (provided that such notice shall not be deemed to apply to any documents and records which the relevant Agent is obligated not to release by any applicable law or regulation).

4.2 Notices of change of the Trustee

The Issuer shall forthwith notify the Principal Paying Agent in writing of any change in the person or persons comprising the Trustee.

5 Payment

5.1 Payment to the Principal Paying Agent

5.1.1

- (i) The Issuer shall, by no later than 10:00 a.m. (Hong Kong time) on the Business Day immediately preceding each date on which any payment in respect of the Bonds becomes due (other than the Make Whole Amount payable under Condition 6(c)) (the "**Relevant Amount**") have paid the Relevant Amount to the Principal Paying Agent; and

- (ii) The Issuer shall ensure that, no later than 10:00 a.m. (Hong Kong time) on the second Business Day immediately preceding the date on which any payment is to be made to the Principal Paying Agent pursuant to subclause 5.1.1(i), the bank effecting payment for it confirms by authenticated SWIFT message to the Principal Paying Agent the payment instructions relating to such payment.

5.1.2 In the event that the Issuer exercises its right to redeem the Bonds in accordance with the first paragraph under Condition 6(c):

- (i) On or before 10:00 a.m. (Hong Kong time) one Business Day immediately preceding such redemption date, the Issuer has paid the Make Whole Price in full to the Principal Paying Agent;
- (ii) If the Optional Redemption Price is not received in full by the Principal Paying Agent on or before one Business Day immediately preceding such redemption date, the Issuer's exercise of its right to redeem the Bonds under Condition 6(c) and such Optional Redemption Notice shall be immediately and automatically cancelled forthwith and shall cease to have any further effect. Nothing herein shall prejudice the Issuer's right to issue a new Optional Redemption Notice after such cancellation; and
- (iii) The Issuer shall ensure that, no later than 10:00 a.m. (Hong Kong time) on the second Business Day immediately preceding the date on which any payment is to be made to the Principal Paying Agent pursuant to subclause 5.1.2(i), the bank effecting payment for it confirms by authenticated SWIFT message to the Principal Paying Agent the payment instructions relating to such payment.

5.1.3 In this Clause 5.1, the date on which a payment in respect of the Bonds becomes due means the first date on which a holder of the Bonds could claim the relevant payment by transfer to an account under the Conditions.

5.2 Payment by Agents

If the Principal Paying Agent has received by the due date for any payment in respect of the Bonds the full amount so payable on such date in cleared and available funds, the Principal Paying Agent, subject to and in accordance with the Conditions, shall pay on behalf of the Issuer the relevant amounts due in respect of the Bonds on the due date therefor. However, unless and until the full amount of any payment due in respect of the Bonds has been received by the Principal Paying Agent, it will not be bound to make such payments. Nothing contained herein shall require a Paying Agent to make a payment unless and until such Paying Agent has received immediately available funds sufficient to make that payment with such determination of sufficiency to be at the Paying Agent's sole discretion. Unless each other Paying Agent receives a notification from the Principal Paying Agent under Clause 5.3, and subject as provided in Clause 5.5, each such Paying Agent shall, subject to and in accordance with the Conditions, pay or cause to be paid on behalf of the Issuer on and after each due date therefor the amounts due in respect of the Bonds and shall be entitled to claim any amounts so paid from the Principal Paying Agent; *provided that*, unless and until the full amount of any payment due in respect of the Bonds has been received by the Principal Paying Agent from the Issuer, the Principal Paying Agent will not be bound to make such payments.

5.3 Notification of Non-payment

The Principal Paying Agent shall as soon as reasonably practicable notify by facsimile each of the other Paying Agents, the Issuer and the Trustee if it has not received the amount to be transferred to it pursuant to any irrevocable payment instruction referred to in Clause 5.1.1(i) or Clause 5.1.2(i), in each case by the time specified for its receipt, unless it is satisfied that it will receive the relevant amount.

5.4 Payment after Failure to Pre-advise or Late Payment

The Principal Paying Agent shall forthwith notify by facsimile each of the other Paying Agents, the Issuer and the Trustee if at any time following the giving of a notice by it under Clause 5.3, upon any payment provided for in Clause 5.1 is received by it, in any such case on or after its due date but otherwise in accordance with this Agreement or it is satisfied that it will receive such payment.

5.5 Suspension of Payment by Agents

Upon receipt of a notice from the Principal Paying Agent under Clause 5.3, each Paying Agent shall cease making payments in accordance with Clause 5.2 as soon as is reasonably practicable. Upon receipt of a notice from the Principal Paying Agent under Clause 5.4, each Paying Agent shall make, or shall recommence making, payments in accordance with Clause 5.2.

5.6 Reimbursements of Paying Agents

The Principal Paying Agent shall on demand promptly reimburse each Paying Agent for payments in respect of the Bonds properly made by it in accordance with the Conditions and this Agreement.

5.7 Method of Payment to Principal Paying Agent

All sums payable to the Principal Paying Agent hereunder shall be paid in U.S. Dollars and in immediately available, freely transferable, cleared funds to such account with such bank in Hong Kong as the Principal Paying Agent may from time to time notify to the Issuer and the Trustee.

5.8 Moneys held by Agents

Each Agent may deal with moneys paid to it by the Issuer, the Trustee or any other person under this Agreement in the same manner as other moneys paid to it as a banker by its customers except that (1) it may not exercise any lien, right of set-off or similar claim in respect of such moneys and (2) it shall not be liable to anyone for interest on any sums held by it under this Agreement. No monies held by any Agent need be segregated except as required by law.

None of the Agents shall have any obligation to invest or reinvest any of the funds deposited or received by any of them under this Agreement. Any money held by an Agent will not be subject to the United Kingdom's Financial Conduct Authority's Client Money Rules or any rule relating to client money of any relevant regulatory authorities pursuant to any Applicable Law.

5.9 Partial Payments

If on surrender of a Certificate only part of the amount payable in respect of it is paid (except as a result of a deduction of tax permitted by the Conditions), the Agent to whom it is presented shall procure that it is enfaced with a memorandum of the amount paid and the date of payment and shall return it to the person who surrendered it. Upon making payment of only part of the amount payable in respect of any Bond, the Registrar shall make a note of the details of such payment in the Register.

5.10 Interest

If the Principal Paying Agent pays out any amount due in respect of the Bonds in accordance with the Conditions or due in accordance with Clause 5.6 before receipt of the amount due under Clause 5.1, the Issuer shall on demand reimburse the Principal Paying Agent for the relevant amount and pay interest to the Principal Paying Agent on such amount that is outstanding from the date on which it is paid out to the date of reimbursement at the rate per annum equal to the aggregate of two per cent. per annum and the rate per annum specified by the Principal Paying Agent as reflecting its cost of funds for the time being in relation to the unpaid amount. Such interest shall be compounded daily.

5.11 Void Global Certificate

If any Bond represented by a Global Certificate becomes void in accordance with its terms after the occurrence of an Event of Default, the Principal Paying Agent shall as soon as reasonably practicable notify the other Agents, the Trustee and the Issuer and, after such notice has been given, no payment shall be made by them in respect of that Bond to the extent that the Global Certificate representing such Bond has become void.

6 Repayment

If claims in respect of any Bond become void or prescribed under the Conditions, the Principal Paying Agent shall refund at the written request of the Issuer by paying the same by credit transfer in U.S. Dollars to such account of the Issuer with such bank in Hong Kong as the Issuer has by notice to the Principal Paying Agent specified for the purpose the amount that would have been due on such Bond if it or the relevant Certificate had been surrendered for payment before such claims became void or prescribed. Subject to Clause 16, the Principal Paying Agent shall not be otherwise required or entitled to repay any sums received by it under this Agreement.

7 Early Redemption

7.1 Notice to Bondholders

The Principal Paying Agent shall, at the cost of the Issuer, publish any notice to Bondholders required in connection with any such redemption or exercise of an Issuer's option as provided to it by the Issuer and shall at the same time also publish a separate list of the principal amount of Bonds drawn and in respect of which the related Certificates have not been so surrendered. Such notice shall specify the date fixed for redemption or exercise of any option, the redemption price and the manner in which redemption will be effected or the terms of the exercise of such option and, in the case of exercise of any option, the principal amount of Bonds drawn. In addition, the Principal Paying Agent shall send to each holder of the Bonds that are called in whole for redemption or exercise of any option, at its address shown in the Register, a copy of such notice together with details of such holder's Bonds called for redemption or subject to any option and the extent of such redemption or the terms of the exercise of such option.

7.2 Triggering Event Offer Exercise Notices

7.2.1 If a Triggering Event occurs, the Issuer shall make an offer to repurchase all or, at the Bondholder's option, any part (equal to US\$200,000 or multiples of US\$1,000 in excess thereof of each holder's Bonds pursuant to the offer described below (the "**Triggering Event Offer**"), at a purchase price in cash equal to 101% of the principal amount of the Bonds repurchased plus accrued and unpaid interest, if any, on the principal amount of Bonds being repurchased to (but excluding) the date of purchase (the "**Triggering Event Payment**").

7.2.2 Within 30 calendar days following a Triggering Event, the Issuer shall give written notice to holders and to the Trustee and to the Agents describing the transaction or transactions that constitute the Triggering Event and offering to repurchase the Bonds on the date specified in the notice, which date will be no earlier than 30 calendar days and no later than 60 calendar days from the date such notice is given (the "**Triggering Event Payment Date**"). stating:

- (i) that a Triggering Event Offer is being made pursuant to this Clause, including a description of the transaction or transactions that constitute the Triggering Event, and that all Bonds properly tendered pursuant to such Triggering Event Offer will be accepted for purchase by the Issuer at a purchase price in cash equal to 101% of the aggregate principal amount of such Bonds plus accrued and unpaid interest, if any, on such Bonds to the date of purchase;
- (ii) the Triggering Event Payment Date;
- (iii) that Bonds must be tendered in amounts of US\$200,000 or multiples of US\$1,000 in excess thereof, and any Bond not properly tendered will remain outstanding and continue to accrue interest;
- (iv) that, unless the Issuer defaults on the payment of the Triggering Event Payment, any Bond accepted for payment pursuant to the Triggering Event Offer will cease to accrue interest on and after the Triggering Event Payment Date;
- (v) that Bondholders electing to have any Bonds purchased pursuant to a Triggering Event Offer will be required to surrender such Bonds, with the Triggering Event Offer Exercise Notice (substantially in the form set out in Schedule 2 herein) completed, to the Paying Agent specified in the notice at the address specified in the notice prior to the close of business on the third Business Day preceding the Triggering Event Payment Date;

- (vi) that Bondholders shall be entitled to withdraw their tendered Bonds and their election to require the Issuer to purchase such Bonds; provided that the Paying Agent receives at the address specified in the notice, not later than the close of business on the 30th day following the date of the Triggering Event notice, a telegram, facsimile transmission or letter setting forth the name of the holder of the Bonds, the principal amount of Bonds tendered for purchase, and a statement that such holder is withdrawing its tendered Bonds and its election to have such Bonds purchased;
- (vii) that if a Bondholder is tendering less than all of its Bonds, such Bondholder will be issued new Bonds equal in principal amount to the unpurchased portion of the Bonds surrendered (the unpurchased portion of the Bonds must be equal to US\$200,000 or an integral multiple of US\$1,000 in excess thereof); and
- (viii) other instructions, as determined by the Issuer consistent with this Clause, that a Bondholder must follow.

7.2.3 The notice, if sent in a manner herein provided, shall be conclusively presumed to have been given, whether or not the Bondholder receives such notice. If (A) the notice is sent in a manner herein provided and (B) any Bondholder fails to receive such notice or a Bondholder receives such notice but it is defective, such Bondholder's failure to receive such notice or such defect shall not affect the validity of the proceedings for the purchase of the Bonds as to all other Bondholders that properly received such notice without defect.

7.2.4 On the Triggering Event Payment Date, the Issuer will, to the extent lawful:

- (i) accept for payment all Bonds or portions of Bonds (of US\$200,000 or integral multiples of US\$1,000 in excess thereof) properly tendered pursuant to the Triggering Event Offer;
- (ii) deposit with the Paying Agent, on or prior to 11:00 a.m., New York City time, one Business Day prior to the Triggering Event Payment Date, an amount of cash in U.S. dollars equal to the Triggering Event Payment in respect of all Bonds or portions of Bonds properly tendered; and
- (iii) deliver or cause to be delivered to the Trustee the Bonds properly accepted together with an Officers' Certificate stating the aggregate principal amount of Bonds or portions of Bonds being purchased by the Issuer in accordance with the terms of this Clause.

7.2.5 The Paying Agent shall as soon as reasonably practicable mail, to each Bondholder who properly tendered Bonds, the purchase price for such Bonds properly tendered, and the Trustee shall as soon as reasonably practicable authenticate and mail (or cause to be transferred by book-entry) to each such Bondholder a new Bond equal in principal amount to any unpurchased portion of the Bonds surrendered, if any; provided that each new Bond will be in a principal amount of US\$200,000 or a multiple of US\$1,000 in excess thereof.

7.2.6 If the Triggering Event Payment Date is on or after the relevant Record Date and on or before the related Interest Payment Date, any accrued and unpaid interest to the Triggering Event Payment Date shall be paid on such Interest Payment Date to the Person in whose name a Bond is registered at the close of business on such Record Date.

7.2.7 The Issuer shall not be required to make a Triggering Event Offer upon a Triggering Event if a third party makes such an offer substantially in the manner, at the times and in compliance with the requirements for a Triggering Event Offer (and for at least the same purchase price payable in cash) and such third party purchases all Bonds properly tendered and not withdrawn under its offer. In the event that such third party terminates or defaults its offer, the Issuer will be required to make a Triggering Event Offer treating the date of such termination or default as though it were the date of the Triggering Event.

7.2.8 The Agent with whom a Certificate is deposited in a valid exercise of any Bondholder's option pursuant to Condition 6(d) shall hold such Certificate on behalf of the depositing Bondholder (but shall not, save as provided below, release it) until the due date for redemption of, or exercise of the option relating to, the relevant Bond(s) consequent upon the exercise of such option, when, in the case of an option to redeem, and subject as provided below, it shall surrender any such Certificate to itself for payment of the amount due in accordance with the Conditions and shall cause the Registrar to pay such moneys in accordance with the directions of the Bondholder contained in the Triggering Event Offer Exercise Notice (substantially in the form set out in Schedule 2 herein). In the event of the exercise of any other option, each Agent shall take the steps required of it in the Conditions and Clause 10.

- 7.2.9 If any such Bond becomes immediately due and payable before the due date for its redemption or exercise of the option, or if upon due surrender of the Certificate representing a Bond payment of the amount due is improperly withheld or refused or exercise of the option is improperly denied, the Agent concerned shall mail the Certificate representing such Bond by uninsured post to, and at the risk of, the relevant Bondholder (unless the Bondholder otherwise requests and pays the costs of such insurance in advance to the relevant Agent) to such address as may have been given by the Bondholder in the Triggering Event Offer Exercise Notice or in another notice in writing to such Agent or where no address has been given, to the address appearing in the Register.
- 7.2.10 At the end of each period for the exercise of any such option, each Agent shall as soon as reasonably practicable notify the Principal Paying Agent of the principal amount of the Bonds in respect of which such option has been exercised with it together with the certificate numbers of the Certificates representing them and the Principal Paying Agent shall as soon as reasonably practicable notify such details to the Issuer and the Trustee. The Trustee and the Agents shall not be required to take any steps to ascertain whether a Triggering Event has occurred and shall not be responsible or liable to Bondholders, the Issuer or any other person for any loss arising from any failure to do so.

8 Cancellation, Destruction, Records and Reporting Requirements

8.1 Cancellation

All Certificates representing Bonds purchased by or on behalf of the Issuer shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith by the Transfer Agent. Such Transfer Agent shall send to the Registrar the details required by such person for the purposes of this Clause 8 and the cancelled Certificates. Thereafter, the Registrar shall remove the relevant holders' names from the Register. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Bonds shall be discharged.

8.2 Cancellation by Issuer

If the Issuer or any of their respective Subsidiaries purchase any Bonds that are to be cancelled in accordance with the Conditions, the Issuer shall as soon as practicable notify the Registrar of the principal amount of those Bonds purchased by it or any of its Subsidiaries and shall procure their cancellation.

8.3 Certificate of Registrar

The Registrar shall, at the request of the Issuer, as soon as possible and in any event within one month after the date of any such redemption or purchase, send the Issuer and the Trustee a certificate stating (1) the aggregate principal amount of Bonds that have been redeemed and cancelled, and (2) the certificate numbers of the Certificates representing them.

8.4 Destruction

Unless otherwise instructed by the Issuer or unless, in the case of the Global Certificate, it is to be returned to its holder in accordance with its terms, the Registrar (or its designated agent) shall destroy the Certificates in its possession and shall send the Issuer and the Trustee a certificate giving the certificate numbers of such Certificates in numerical sequence.

8.5 Information from Issuer

The Registrar shall only be required to comply with its obligations under this Clause 8 in respect of Bonds surrendered for cancellation following a purchase of the same by the Issuer or by any of their respective Subsidiaries to the extent it has been informed by the Issuer of such purchases in accordance with Clause 8.2 above.

8.6 Records

The Registrar shall keep a full and complete record of the Certificates issued and of redemption, cancellation or surrender for replacement and of all replacement Certificates and the Registrar shall make its records available to the Issuer, the Trustee and the other Agents during normal business hours at its specified office.

9 Replacement Certificates

9.1 Replacement

The Issuer, Registrar or any Transfer Agent shall in accordance with the Conditions authenticate and deliver replacement Certificates which the Issuer may determine to issue or deliver in place of any Certificate which has been lost, stolen, mutilated, defaced or destroyed.

9.2 Conditions to Replacement

The Registrar will verify with the relevant Transfer Agent, in the case of an alleged lost, stolen, mutilated, defaced or destroyed Certificate in respect of which the identifying number is known, that the Bond in respect of which such Certificate is issued has not redeemed or purchased and cancelled (as contemplated in Clause 8.2) and the Registrar shall not deliver or cause to be delivered any replacement Certificate unless and until the applicant therefor shall have:

- 9.2.1 paid such fees, costs, taxes and/or duties as may be incurred in connection therewith and provided the Registrar with evidence satisfactory to the Registrar of payment of the same;
- 9.2.2 furnished the Registrar (directly or, if applicable, through the relevant Transfer Agent) with such evidence (including evidence as to the identifying number of the Certificate in question if known), security and indemnity and otherwise as the Registrar may require; and
- 9.2.3 surrendered to the Registrar (directly or, if applicable, through the relevant Transfer Agent) any mutilated or defaced Certificate to be replaced.

9.3 Cancellation

The Registrar shall cancel and, unless otherwise instructed in writing by the Issuer, destroy any mutilated or defaced Certificates replaced by it and shall send the Issuer, the Principal Paying Agent and the Trustee a certificate giving the information specified in Clause 8.4.

9.4 Notification

The Registrar shall, on issuing a replacement Certificate, as soon as reasonably practicable inform the other Agents, the Trustee, the Issuer of the certificate number of such replacement Certificate and of the one that it replaces.

9.5 Surrender after Replacement

If a Certificate that has been replaced is surrendered to a Paying Agent for payment, that Paying Agent shall as soon as reasonably practicable inform the Principal Paying Agent, who shall so in turn inform the Issuer, the Trustee and the Registrar.

10 Additional Duties of the Transfer Agents and Registrar

10.1 Additional Duties of the Transfer Agents

- 10.1.1 The Transfer Agents shall make available during normal business hours on any business day in the location of their specified offices forms of transfer notice and Triggering Event Offer Exercise Notice in respect of the Bonds, in each case in the form provided to them by the Issuer.

The Transfer Agent to which a form of transfer or a Triggering Event Offer Exercise Notice and a Certificate representing the Bonds to be transferred or redeemed is surrendered shall as soon as reasonably practicable notify the Registrar of (1) the name and address of the holder of the Bond(s) appearing on such Certificate, (2) the certificate number of such Certificate and principal amount of the Bond(s) represented by it, (3) (in the case of an exercise of an option by a Bondholder) the contents of the Triggering Event Offer Exercise Notice, (4) (in the case of a transfer of, or exercise of an option relating to, part only) the principal amount of the Bond(s) to be transferred or in respect of which such option is exercised, and (5) (in the case of a transfer) the name and address of the transferee to be entered on the Register and, subject to Clause 8.4, shall cancel such Certificate and forward it to the Registrar.

10.2 Additional Duties of the Registrar

The Registrar shall maintain a Register outside the United Kingdom in accordance with the Conditions, the Regulations and this Agreement. The Register shall show the number of issued Certificates, their principal amount, their date of issue and their certificate number (which shall be unique for each Certificate) and shall identify each Bond, record the name and address of its initial subscriber, all subsequent transfers, exercises of options and changes of ownership in respect of it, the names and addresses of its subsequent holders and the Certificate from time to time representing it. The Registrar shall at all reasonable times during normal business hours (and upon reasonable prior notice) on any business day in the location of its specified office make the Register available to the Issuer, the Principal Paying Agent, the Trustee and the Transfer Agents or any person authorised by any of them for inspection and for the taking of copies and the Registrar shall deliver to such persons all such lists of holders of the Bonds, their addresses and holdings as they may request.

11 Information and Regulations Concerning the Bonds

- 11.1 Each Agent will give to the other Agents such further information with regard to its activities hereunder as may be required by it for the proper performance of its duties.
- 11.2 The Issuer and the Registrar may, subject to the Conditions, from time to time with the prior written approval of the Trustee and (in the case of any Regulation proposed by the Issuer) the Registrar, promulgate regulations concerning the carrying out of transfers relating to the Bonds and the forms and evidence to be provided. All such transactions shall be made subject to the Regulations. The initial Regulations are set out in Schedule 1. The Registrar shall, at the expense of the Issuer, provide copies of the current Regulations to Bondholders by mail (free of charge to the holders) upon written request of any such Bondholders.

12 Documents and Forms

12.1 Principal Paying Agent

The Issuer shall provide to the Principal Paying Agent a sufficient quantity, for distribution among the relevant Agents as required by this Agreement or the Conditions, of all documents required under the Bonds to be available for issue or inspection during normal business hours (and the Transfer Agents shall make such documents available for collection or inspection to the Bondholders that are so entitled and carry out the other functions set out in Schedule 1).

12.2 Registrar

The Issuer shall provide the Registrar with enough blank Certificates (including Global Certificates) to meet the Transfer Agent's and the Registrar's anticipated requirements for Certificates upon the issue and transfer of the Bonds, for the purpose of issuing replacement Certificates.

12.3 Certificates held by Agents

Each Agent (1) acknowledges that all forms of Certificates delivered to and held by it pursuant to this Agreement shall be held by it as custodian only and it shall not be entitled to and shall not claim any lien or other security interest on such forms, (2) shall only use such forms in accordance with the Conditions and this Agreement, (3) shall maintain all such forms in safe custody, (4) shall take such security measures as may reasonably be necessary to prevent their theft, loss or destruction and (5) shall keep an inventory of all such forms and make it available to the Issuer, the Trustee and the other Agents at all reasonable times during normal business hours at its specified office.

13 Fees and Expenses

13.1 Fees

The Issuer shall pay to the Agents the fees and expenses in respect of their respective services as is separately agreed in writing by the Issuer with the Agents and the Issuer shall not concern itself with their apportionment of amounts paid to the Principal Paying Agent as between the Agents. At the request of the Agents, the parties to this Agreement may from time to time during the continuance of this Agreement review the fees and commissions agreed initially pursuant to the above clause with a view to determining whether the parties can mutually agree upon any changes to the fees and commissions.

13.2 Costs

The Issuer shall also pay within ten Business Days of receipt of a demand letter all out-of-pocket expenses (including but not limited to legal, advertising, communications and postage expenses) properly incurred by the Agents in connection with their services under this Agreement together with any applicable value added tax, sales, stamp, issue, registration, documentary or other taxes or duties, provided that receipts (or such other evidence of payment) in respect of such expenses are presented to the Issuer with the relevant demand.

13.3 Gross-up

In the event that any withholding or deduction on account of taxation is required by law in relation to any amount payable under this Clause 13 or under Clause 14.1, the Issuer shall pay such additional amounts as will result in receipt by the payee of such amounts as would have been received by it had no such withholding or deduction been required.

Notwithstanding any other provision under this Agreement, any amounts to be paid by or on behalf of the Issuer in respect of any amount payable under this Clause 13 or under Clause 14 will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any Treasury regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any legislation, regulations or official guidance implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”).

13.4 Fees not to be abated

The fees, commissions and expenses payable to the Agents for services rendered and the performance of its obligations under this Agreement shall not be abated by any remuneration or other amounts or profits receivable by the Agents (or to its knowledge by any of its associates) in connection with any transaction effected by the Agents.

14 Indemnity

14.1 Indemnity in favour of the Agents

The Issuer shall indemnify each Agent, its directors, officers, employees and agents (each an “**indemnified party**”) against all losses, liabilities, actions, proceedings, claims, demands, damages, costs or expenses (together “**Losses**”) (including, but not limited to, all costs, legal fees, charges and expenses (together “**Expenses**”) incurred in disputing or defending any Losses) which they may incur or which may be made against them in the negotiation, preparation and execution of this Agreement or the Bonds or as a result or in connection with its appointment or the exercise of their rights, powers, authorities or duties under this Agreement or the Bonds except to the extent that any Losses or Expenses result from their own gross negligence, fraud or wilful default. The indemnity set out in this Clause 14 and Clauses 13.2 and 13.3 shall survive the resignation or removal of any Agent or the termination or expiry of this Agreement.

15 General

15.1 No Agency or Trust

Each Agent shall act solely as an agent of the Issuer and/or the Trustee and only be obliged to perform the duties set out herein and no implied duties or obligations of any kind (including, without limitation, duties or obligations of fiduciary or equitable nature) shall be read into this Agreement. No Agent shall be under any fiduciary duty or other obligation towards or have any relationship of agency or trust for or with any person other than the Issuer and the Trustee or be responsible for or liable in respect of the legality, validity or enforceability of the Bonds, this Agreement or any Certificate or any act or omission of any other person (including, without limitation, any other Agent).

15.2 Holder to be treated as Owner

Except as otherwise required by the Conditions or instructed by the Issuer or as ordered by a court of competent jurisdiction or otherwise required by law and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating to any Bond by any person (other than a duly executed form of transfer) or any notice of any previous loss or theft thereof, each Agent will treat a holder of the Bonds as its absolute owner for all purposes and will not be liable for doing so.

15.3 No Lien

No Agent shall exercise any lien, right of set-off or similar claim against any Bondholder in respect of moneys payable by it under this Agreement, nor shall any commission or expense be charged by it to any such person in respect thereof.

15.4 Taking of Advice

Each Agent may engage and consult, at the cost of the Issuer, on any matter with any legal or other professional adviser selected by it, who may at the discretion of such Agent be an employee of or adviser to the Issuer, and none of the Agents or their respective directors, officers, employees and duly appointed agents shall be liable in respect of anything done, or omitted to be done, relating to that matter in accordance with that adviser's opinion.

15.5 Reliance on Documents etc.

Each Agent shall be protected and shall incur no Liability for or in respect of any action taken, omitted or suffered in reliance upon any telephone, facsimile, e-mail communication, written instruction or document which it believes to be genuine and is from a person purporting to be (and whom the Agent believes in good faith to be) the authorised representative of the Issuer as sufficient instructions and authority of the Issuer for the Agent to act. The Agents shall be under no duty to inquire into or investigate the validity, accuracy or content of any such communication, instruction or document.

15.6 Other relationships

Each Agent and any of their respective officers, directors, employees and agents and any other person, whether or not acting for itself, may become the owner of, and/or acquire, hold or dispose of any Bond or other security (or any interest therein) of the Issuer or any other person, may engage or be interested in any financial or other transaction with the Issuer or any other person and may act on, or as depositary, trustee or agent for, any committee or body of holders of the Bonds or any other securities of any such person in each case with the same rights as it would have had if that Agent were not an Agent without regard to the interests of the Issuer and shall not in any way be liable to account for any profit, share brokerage, commission, remuneration or other amount or benefit made or received thereby or in connection therewith.

15.7 List of Authorised Persons

The Issuer shall provide the Trustee and the Principal Paying Agent for (itself and for delivery to each other Agent) with a copy of the certified list of persons each of whom will be a director or authorised person and authorised to take action on behalf of the Issuer, as the case may be, in connection with this Agreement and shall notify the Trustee, the Principal Paying Agent and each other Agent as soon as reasonably practicable in writing if any of such persons ceases to be so authorised or if any additional person becomes so authorised. Unless and until notified of any such change, each Agent and the Trustee may rely on the certificate(s) most recently delivered to it and all instructions given in accordance with such certificate(s) shall be binding on the Issuer.

15.8 Not to expend or risk its own funds

No provision of this Agreement shall require any Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in exercise of any of its rights or powers and any such decision shall be at such Agent's sole discretion.

15.9 Not liable for any failure or delay

The liability of the Agent under Clause 15.21 will not extend to any Liabilities arising through any acts, events or circumstances not within its control, or resulting from the general risks of investment in or the holding of assets in any jurisdiction, including, but not limited to, Liabilities arising from nationalisation, expropriation or other governmental actions; any law, order or regulation of a governmental, supranational or regulatory body; regulation of the banking or securities industry including changes in market rules or practice, currency restrictions, devaluations or fluctuations; market conditions affecting the execution or settlement of transactions or the value of assets; breakdown, failure or malfunction of any third party transport, telecommunications, computer services or systems; pandemics, natural disasters or Acts of God; war, terrorism, insurrection or revolution; and strikes or industrial action. Notwithstanding anything to the contrary in this Agreement, no Agent shall in any event be liable for any failure or delay in the performance of its obligations hereunder if it is prevented from so performing its obligations by any circumstances beyond the control of such Agent, including without limitation, any existing or future law or regulation, any existing or future act of governmental authority, Act of God, flood, war whether declared or undeclared, terrorism, riot, rebellion, civil commotion, strike, lockout, other industrial action, general failure of electricity or other supply, aircraft collision, technical failure, accidental or mechanical or electrical breakdown, computer failure or failure of any money transmission system.

15.10 Appointment of attorney, contractor, professional adviser, etc.

Each Agent may appoint any person as attorney, contractor, professional adviser, officer, agent, delegate or otherwise (if any), and delegate to any such person its powers, duties and obligations, as may be necessary for it to carry out any of its obligations under this Agreement. Subject to such Agent (as the case may be) having acted with all due care in selecting and appointing such person (each person appointed as contemplated in this Clause 15.10 being an "Appointee"), such Agent shall not have any obligation to monitor or supervise such Appointee or be responsible for any loss, liability, cost, claim, action, demand or expense whatsoever incurred by reason of the Appointee's acts, omissions, misconduct, negligence, fraud, default or otherwise.

15.11 Information, opinion, certificate, etc.

The Issuer shall give or procure to be properly given to each Agent such information, opinion, certificate and evidence as it may request which is necessary for or would facilitate the performance of its obligations under this Agreement and the Bonds and in such format as it shall require. No Agent shall be under any duty to inquire into or investigate the validity, accuracy or content of any such information, opinion, certificate or evidence.

15.12 Not liable for special, punitive, indirect or consequential loss or damage

Notwithstanding any other term or provision of this Agreement to the contrary, under no circumstances will any of the Agents be liable for any special, punitive, indirect or consequential loss or damage (including without limitation loss of business, goodwill, opportunity, profit, reputation or anticipated saving) of any kind whatsoever, whether arising directly or indirectly and whether or not foreseeable, even if it is actually aware or has been advised of the possibility of such loss or damage and regardless of whether the claim for loss or damage is made in negligence, for breach of contract, breach of trust, breach of fiduciary duty or otherwise. This Clause 15.12 shall survive the termination or expiry of this Agreement or the resignation or removal of any of the Agents.

15.13 Written instruction

Notwithstanding anything to the contrary contained in this Agreement, none of the Agents shall be obliged to act or refrain from acting in accordance with any instruction, direction or request delivered to it by the Issuer, as the case may be, unless such instruction, direction or request is delivered in writing.

15.14 Anti-money laundering and terrorism

In connection with DB Group's commitment to comply with all applicable sanctions regimes, each Agent and any affiliate or subsidiary of DEUTSCHE BANK AKTIENGESELLSCHAFT may take any action in its sole and absolute discretion that it considers appropriate to comply with any law, regulation, request of a public or regulatory authority, any agreement between any member of the DB Group and any government authority or any DB Group policy that relates to the prevention of fraud, money laundering, terrorism, tax evasion, evasion of economic or trade sanctions or other criminal activities (collectively, the "**Relevant Requirements**"). Such action may include, but is not limited to (i) screening, intercepting and investigating any transaction, instruction or communication, including the source of, or intended recipient of, funds, (ii) delaying or preventing the processing of instructions or transactions or the Agent's performance of its obligations under this Agreement, (iii) the blocking of any payment or (iv) requiring the Issuer to enter into a financial crime compliance representations letter from time to time in a form and substance acceptable to the DB Group. Where possible and permitted, the Agent will endeavour to notify the Issuer of the existence of such circumstances. To the extent permissible by law, neither the Agent nor any member of the DB Group will be liable for loss (whether direct or consequential and including, without limitation, loss of profit or interest) or damage suffered by any party arising out of, or caused in whole or in part by, any actions that are taken by the Agents or any other member of the DB Group to comply with any Relevant Requirement. In this Clause 15.14, "**DB Group**" means DEUTSCHE BANK AKTIENGESELLSCHAFT together with its subsidiary undertakings from time to time.

15.15 Not responsible for listing obligations

Nothing in this Agreement shall require any Agents to assume any obligation of the Issuer arising under any provision of the listing, prospectus, disclosure or transparency rules (or equivalent rules of any other applicable competent authority).

15.16 Not responsible for other parties' default

In the case of any default by the Issuer or the Trustee of its obligations under this Agreement or in relation to the Bonds, none of the Agents shall have any duty or responsibility in relation to the performance of the Issuer's or the Trustee's obligations herein or therein.

15.17 Compliance

Notwithstanding any other term or provision of this Agreement to the contrary, each Agent shall be entitled to take any action or to refuse to take any action which such Agent regards as necessary for it to comply with any order of a court with competent jurisdiction, or any Applicable Law, regulation or fiscal requirement, or the rules and operating procedures or market practice of any relevant stock exchange or other market or clearing system.

15.18 Issuer to pay stamp and registration tax

The Issuer agrees to pay any and all stamp, registration and other documentary taxes, duties, assessments or government charges (including any interest and penalties thereon or in connection therewith) which may be payable in connection with the execution, delivery, performance and enforcement of this Agreement.

15.19 Withholdings

Notwithstanding any other provision of this Agreement, each Agent shall be entitled to make a deduction or withholding from any payment which it makes under this Agreement for or on account of any present or future taxes, duties, assessments or government charges if and to the extent so required by Applicable Law, in which event the Agent shall make such payment after such withholding or deduction has been made and shall account to the relevant Authority for the amount so withheld or deducted or, at its option, shall reasonably promptly after making such payment return to the Issuer the amount so deducted or withheld, in which case, the Issuer shall so account to the relevant Authority for such amount.

15.20 Withholdings Notice

If the Issuer or any Agent is, in respect of any payment in respect of the Bonds, required to withhold or deduct any amount for or on account of any taxes, duties, assessments or governmental charges, the Issuer shall give written notice of that fact to each Agent as soon as the Issuer becomes aware of the requirement to make the withholding or deduction and shall give to each Agent such information as such Agent shall require to enable it to assess and comply with the requirement. Until such time, the Issuer confirms that all payments made by or on behalf of the Issuer shall be made free and clear of and without withholding or deduction of any such amounts.

Notwithstanding any other provision of this Agreement, the Issuer shall indemnify each Agent against any liability or loss howsoever incurred in connection with the Issuer's obligation to withhold or deduct an amount on account of tax including, without limitation, FATCA.

15.21 Not Liable for Actions

(a) Each Agent shall only be liable to the Issuer and/or the Trustee for losses, liabilities, costs, expenses and demands arising directly from the performance of its obligations owed to the Issuer or, as the case may be, the Trustee under this Agreement suffered by or occasioned to the Issuer and/or the Trustee ("**Claims and Liabilities**") to the extent that a court of competent jurisdiction in a final order, judgment or decree has determined that such Agent has been grossly negligent, fraudulent or is guilty of wilful default in respect of its obligations owed to the Issuer under this Agreement. No Agent shall otherwise be liable or responsible for any Claims and Liabilities or inconvenience which may result from anything done or omitted to be done by it in connection with this Agreement. For the avoidance of doubt, the failure of any Agent (i) to make a claim for payment of interest and principal on the Issuer or (ii) to inform any other paying agent or clearing system of a failure on the part of the Issuer to meet any such claim or to make a payment by the stipulated date, shall not be deemed to constitute gross negligence, fraud or wilful default on the part of such Agent.

(b) Claims and Liabilities shall be limited to the amount of the Issuer's and/or the Trustee's actual loss. Such actual loss shall be determined (a) as at the date of default of such Agent or, if later, the date on which the loss arises as a result of such default and (b) without reference to any special conditions or circumstances known to such Agent at the time of entering into the Agency Agreement, or at the time of accepting any relevant instructions, which increase the amount of the loss.

15.22 No other regulated activities

Nothing in this Agreement shall require the Agents to carry on an activity of the kind specified by any provision of Part 1 of Schedule 5 of the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong, or to lend money to the Issuer.

15.23 Information Covenant

The Issuer and each Agent shall, within ten Hong Kong business days of a written request by another party, supply to that other party such forms, documentation and other information relating to it, its operations, or the Bonds as that other party reasonably requests for the purposes of that other party's compliance with Applicable Law and shall notify the relevant other party reasonably promptly in the event that it becomes aware that any of the forms, documentation or other information provided by such other party is inaccurate in any material respect; provided, however, that no party shall be required to provide any forms, documentation or other information pursuant to this clause to the extent that (i) any such form, documentation or other information (or the information required to be provided on such form or documentation) is not reasonably available to such party and cannot be obtained by such party within the prescribed time frame using reasonable efforts; or (ii) doing so would or might in the reasonable opinion of such party constitute a breach of any: (a) Applicable Law; (b) fiduciary duty; or (c) duty of confidentiality.

16 Changes in Agents

16.1 Appointment and Termination

The Issuer may at any time with the prior written approval of the Trustee vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, *provided that* the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar and (iii) a Transfer Agent, in each case as approved by the Trustee.

Notice of any such termination or appointment or any change of any specified office shall promptly be given by the Issuer to the Bondholders.

16.2 Resignation

Any Agent may resign its appointment at any time by giving the Issuer and the Principal Paying Agent at least 45 days' notice to that effect, which notice shall expire at least 30 days before or after any due date for payment of any Bonds, without assigning any reason and without being responsible for any costs, charges and expenses occasioned by such retirement. The Issuer hereby agrees that in the event of any Agent giving notice under this Clause 16.2, it will procure a new Agent to be appointed and if the Issuer has not procured the appointment of a new Agent by the day falling 10 days prior to the expiry of such written notice, the resigning Agent shall be entitled to (a) appoint its replacement, which shall be a bank of international reputation with experience of performing such a role (but only if the Trustee approves such selection) or (ii) petition any court of competent jurisdiction for its resignation, in each case at the cost of the Issuer. If such petition is granted, the relevant Agent shall notify the Issuer and the Trustee and (if it is not itself the Principal Paying Agent, the Principal Paying Agent) in writing of its resignation.

16.3 Condition to Resignation or Termination

No resignation or (subject to Clause 16.5) termination of the appointment of the Principal Paying Agent, the Registrar or the Transfer Agent shall, however, take effect until a new Principal Paying Agent, Registrar or Transfer Agent, as the case may be, (which shall be a bank or trust company) has been appointed and no resignation or termination of the appointment of an Agent shall take effect if there would not then be such Agents as are required by Condition 7(d).

16.4 Change of Office

If an Agent changes the address of its specified office in a city it shall give the Issuer, the Trustee and the Principal Paying Agent at least 10 days' notice of the change, giving the new address and the date on which the change takes effect.

16.5 Automatic Termination

The appointment of any Agent shall forthwith terminate if the Agent becomes incapable of acting, is adjudged bankrupt or insolvent, files a voluntary petition in bankruptcy, makes an assignment for the benefit of its creditors, consents to the appointment of a receiver, administrator or other similar official of all or a substantial part of its property or admits in writing its inability to pay or meet its debts as they mature or suspends payment thereof, or if a resolution is passed or an order made for the winding up or dissolution of the Agent, a receiver, administrator or other similar official of the Agent or all or a substantial part of its property is appointed, a court order is entered approving a petition filed by or against it under applicable bankruptcy or insolvency law or a public officer takes charge or control of the Agent or its property or affairs for the purpose of rehabilitation, conservation or liquidation.

16.6 Delivery of Records

If an Agent resigns or its appointment is terminated, it shall on the date the resignation or termination takes effect pay to the successor Agent any amount held by it for payment of the Bonds (if any) and deliver (at the expense of the Issuer) to the successor Agent the records kept by it (if any) and all Certificates (if any) held by it pursuant to this Agreement.

16.7 Successor Corporations

Any legal entity into which any Agent or the Trustee is merged or converted, or any corporation with which the Agent or the Trustee may be consolidated, or any legal entity resulting from any merger or conversion or consolidation to which such Agent or (as the case may be) the Trustee is a party shall, or any corporation to which the Agent shall sell or otherwise transfer all or substantially all of its assets shall, on the date when the merger, conversion, consolidation or transfer becomes effective and to the extent permitted by applicable law, be the successor to such Agent without the execution or filing of any paper or any further act on the part of the parties to this Agreement or any further formality, whereupon the Issuer, the other Agents, the Trustee (if applicable) and such successor shall acquire and become subject to the same rights and obligations between themselves as if they had entered into an agreement in the form mutatis mutandis of this Agreement. Notice of any such merger, consolidation, transfer or conversion shall forthwith be given by such successor to the Issuer, the other Agents and the Trustee (if applicable).

17 Communications

17.1 Notices

Any communication other than any communication which is an instruction to make a payment (which shall only be by letter) shall be by letter, fax or email:

in the case of the Issuer, to it at:

New Oriental Education & Technology Group Inc.
No. 6 Hai Dian Zhong Street
Haidian District, Beijing 100080
People's Republic of China

Fax no.: +(86 10) 6260-5511

Attention: Zhihui Yang, Chief Financial Officer

Email: ***

in the case of the Trustee, to it at:

DB Trustees (Hong Kong) Limited
Level 52 International Commerce Centre 1
Austin Road West
Kowloon
Hong Kong

Fax no.: +852 2203 7320

Attention: The Directors

and in the case of the Principal Paying Agent, the Registrar, the Transfer Agent and any of the other Agents, to it at:

Deutsche Bank AG, Hong Kong Branch
Level 52 International Commerce Centre
Austin Road West Kowloon Hong Kong

Fax no.: +852 2203 7320

Attention: Corporate Trust

or any other address of which written notice has been given to the parties in accordance with this Clause 17.1. Such communications will take effect, in the case of a letter, when delivered, and in the case of a fax, upon receipt by the sender of the relevant fax of a transmission confirmation. Any communication which is received (or deemed to take effect in accordance with the foregoing) after 4.00 p.m. (in the city of the addressee) on any particular day or on a day on which commercial banks and foreign exchange markets do not settle payments in the city of the addressee shall be deemed to have been received and shall take effect from 10.00 a.m. on the next following day on which commercial banks and foreign exchange markets settle payments in the city of the addressee or on the next Business Day. Any communication delivered to any party under this Agreement which is to be sent by fax will be written legal evidence.

17.2 Notices through Principal Paying Agent

All communications relating to this Agreement and/or the Bonds between (1) the Issuer and/or the Trustee and (2) any of the Agents or between the Agents themselves shall be made (except where otherwise expressly provided) through the Principal Paying Agent.

17.3 Not liable for any operational incident

The Internet cannot guarantee the integrity and safety of transferred data nor the delay in which they will be processed. None of the Agents shall therefore be liable for any operational incident and its consequences arising from the use of Internet.

17.4 All communications in English

All communications, documents, notices, certificates etc. provided to the parties under this Agency Agreement or in relation to the Bonds will be in English.

17.5 Publication

At the request and cost of the Issuer, the Principal Paying Agent shall arrange for the publication of all notices to Bondholders. Notices to Bondholders shall be published in accordance with the Conditions having previously, unless the Trustee otherwise agrees, been approved by the Trustee.

17.6 Copies to the Trustee

The Issuer shall promptly send to the Trustee two copies of the form of every notice to be given to Bondholders for approval. The Principal Paying Agent shall promptly send to the Trustee two copies of every such notice once published.

17.7 Notices from Holders

Each of the Principal Paying Agent and the Registrar shall promptly forward to the Issuer any notice received by it from a holder which is addressed to the Issuer.

18 Modification

This Agreement may be amended or modified by all parties to this Agreement in writing.

19 Governing Law and Jurisdiction**19.1 Governing Law**

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

19.2 Jurisdiction

The courts of Hong Kong are to have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and accordingly any legal action or proceedings arising out of or in connection with this Agreement (“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

20 Termination

This Agreement shall terminate forthwith upon all sums due and payable under the Bonds being paid in full to the Bondholders.

21 Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

Schedule 1

Regulations Concerning the Transfer and Registration of the Bonds

- 1 Each Certificate shall represent an integral number of the Bonds.
- 2 Unless otherwise requested by him and agreed by the Issuer and save as provided in the Conditions, each holder of more than one Bond shall be entitled to receive only one Certificate in respect of his holding.
- 3 Unless otherwise requested by them and agreed by the Issuer and save as provided in the Conditions, the joint holders of one or more Bonds shall be entitled to receive only one Certificate in respect of their joint holding which shall, except where they otherwise direct, be delivered to the joint holder whose name appears first in the register of the holders of Bonds in respect of the joint holding. All references to “**holder**,” “**transferor**” and “**transferee**” shall include joint holders, transferors and transferees.
- 4 The executors or administrators of a deceased holder of Bonds (not being one of several joint holders) and, in the case of the death of one or more of joint holders, the survivor or survivors of such joint holders shall be the only persons recognised by the Issuer as having any title to such Bonds.
- 5 Any person becoming entitled to Bonds in consequence of the death or bankruptcy of the holder of such Bonds may, upon producing such evidence that he holds the position in respect of which he proposes to act under this paragraph or of his title as the Transfer Agent or the Registrar shall require (including legal opinions), be registered himself as the holder of such Bonds or, subject to the preceding paragraphs as to transfer, may transfer such Bonds. The Issuer, the Transfer Agents and the Registrar may retain any amount payable upon the Bonds to which any person is so entitled until such person shall be so registered or shall duly transfer the Bonds.
- 6 Upon the surrender of a Certificate representing any Bonds to be transferred or in respect of which an option is to be exercised or any other Bondholders’ right to be demanded or exercised, the Transfer Agent or the Registrar to whom such Bond is surrendered shall request reasonable evidence as to the identity of the person (the “**Surrendering Party**”) who has executed the form of transfer on the Certificate or other accompanying notice or documentation, as the case may be, if such signature does not conform to any list of duly authorised specimen signatures supplied by the registered holder. If the signature corresponds with the name of the registered holder, such evidence may take the form of a certifying signature by a notary public or a recognised bank. If the Surrendering Party is not the registered holder or is not one of the persons included on any list of duly authorised persons supplied by the registered holder, the Transfer Agent or Registrar shall require reasonable evidence (which may include legal opinions) of the authority of the Surrendering Party to act on behalf of, or in substitution for, the registered holder in relation to such Bonds.

**Schedule 2
Form of Triggering Event Offer Exercise Notice**

**New Oriental Education & Technology Group Inc.
U.S.\$ 300,000,000 2.125 per cent. Bonds due 2025 (the “Bonds”)**

By depositing this duly completed Notice with any Transfer Agent for the Bonds described above (the “**Bonds**”) the undersigned holder of such Bonds as are represented by the Certificate that is surrendered with this Notice and referred to below irrevocably exercises its option to have such Bonds, or the principal amount of Bonds specified below redeemed on [•] under Condition 6(d) of the Bonds. Capitalised terms used in this Notice shall have the same meanings as those defined in the Terms and Conditions of the Bonds unless the context otherwise requires.

This Notice relates to Bonds in the aggregate principal amount of U.S.\$300,000,000, bearing the following certificate numbers.

If the Certificate representing the Bonds to which this Notice relates is to be returned, or, in the case of a partial exercise of an option in respect of a single holding of Bonds, a new Certificate representing the balance of such holding in respect of which no option has been exercised is to be issued, to their holder, it should be returned by post to: [•]

Payment Instructions

Please make payment in respect of the above Bonds as follows:

*(a) by transfer to the registered account of the holder appearing in the Register.

*(b) by transfer to the following U.S. dollar account in [•]:

Bank: [•]

Branch Address: [•]

Branch Code: [•]

Account Number: [•]

Account Name: [•]

*(c) by US dollar cheque drawn on a bank in [•] and mailed to the address of the holder appearing in the Register.

*Delete as appropriate

Signature of [holder]*

.....
Certifying signature (2)

Signature of [holder]*
.....

[To be completed by recipient Transfer Agent]

Received by:

.....
[Signature of Transfer Agent]

At its office at: Deutsche Bank AG, Hong Kong Branch
Level 52 International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

On: [•]

Notwithstanding the deposit of any Bonds with the Agent, the Agent acts solely as an agent of the Issuer and/or the Trustee and will not assume any obligation or responsibility towards or relationship of agency or trust for or with any of the owners or holders of the Bonds or any other third party.

Notes:

- 1 The Agency Agreement provides that Certificates so returned or Certificates issued will be sent by post, uninsured and at the risk of the Bondholder, unless the Bondholder otherwise requests and pays the costs of such insurance in advance to the relevant Agent. This section need only be completed if the Certificate is not to be forwarded to the Registered Address.
- 2 The signature of any person relating to any Bonds shall conform to a list of duly authorised specimen signatures supplied by the holder of such Bonds or (if such signature corresponds with the name as it appears on the face of the Certificate) be certified by a notary public or a recognised bank or be supported by such other evidence as a Transfer Agent may require. A representative of the holder should state the capacity in which he signs.
- 3 This Triggering Event Offer Exercise Notice is not valid unless all of the paragraphs requiring completion are duly completed.

The Agent with whom the above Certificates are deposited shall not in any circumstances be liable to the depositing Bondholder or any other person for any loss or damage arising from any act, default or omission of such Agent in relation to the Certificates or any of them unless such loss or damage was caused by the fraud, wilful default or gross negligence of such Agent.

This Agreement has been entered into on the date stated at the beginning.

NEW ORIENTAL EDUCATION & TECHNOLOGY
GROUP INC.

By: /s/ Zhihui Yang

Name: Zhihui Yang

Title: Chief Financial Officer

[Signature Page — Agency Agreement]

DB TRUSTEES (HONG KONG) LIMITED

as Trustee

By: /s/ WANG Yaohui / /s/ Christina Nip

Name: WANG Yaohui / Christina Nip

Title: Authorised Signatory / Authorised Signatory

[Signature Page — Agency Agreement]

DEUTSCHE BANK AG, HONG KONG BRANCH

as Principal Paying Agent, Registrar and Transfer Agent

By: /s/ WANG Yaohui / /s/ Christina Nip

Name: WANG Yaohui / Christina Nip

Title: Authorised Signatory / Authorised Signatory

[Signature Page — Agency Agreement]

**Description of rights of each class of securities
registered under Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”)**

American Depositary Shares (“ADSs”) each representing one common share of New Oriental Education & Technology Group Inc., (the “we,” “our,” “our company,” or “us”) are listed and traded on the New York Stock Exchange and, in connection with this listing (but not for trading), the common shares are registered under Section 12(b) of the Exchange Act. This exhibit contains a description of the rights of (i) the holders of common shares and (ii) the holders of ADSs. Common shares underlying the ADSs are held by Deutsche Bank Trust Company Americas, as depositary, and holders of ADSs will not be treated as holders of the common shares.

Description of Common Shares

The following is a summary of material provisions of our currently effective amended and restated memorandum (the “Memorandum”) and articles of association (the “Articles of Association”), as well as the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”) insofar as they relate to the material terms of our common shares. Notwithstanding this, because it is a summary, it may not contain all the information that you may otherwise deem important. For more complete information, you should read the entire Memorandum and Articles of Association, which has been filed with the SEC as an exhibit to our Registration Statement on Form F-1 (File No. 333-140090).

Type and Class of Securities (Item 9.A.5 of Form 20-F)

Each common share has US\$0.01 par value. The number of common shares that have been issued as of the last day of the financial year ended May 31, 2020 is provided on the cover of the annual report on Form 20-F filed on September 16, 2020 (the “2020 Form 20-F”). Certificates representing our common shares are issued in registered form.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Our shareholders do not have preemptive rights.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

Not applicable.

Rights of Other Types of Securities (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of Common Shares (Item 10.B.3 of Form 20-F)

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.

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.

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.

Requirements to Change the Rights of Holders of Common Shares (Item 10.B.4 of Form 20-F)

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.

Limitations on the Rights to Own Common Shares (Item 10.B.6 of Form 20-F)

There are no limitations under the laws of the Cayman Islands or under the Memorandum and Articles of Association that limit the right of non-resident or foreign owners to hold or vote common shares.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

Anti-Takeover Provisions in the Memorandum and Articles of Association

Some provisions of our Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue 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.

Ownership Threshold (Item 10.B.8 of Form 20-F)

There are no provisions under the laws of the Cayman Islands or under the Memorandum and Articles of Association that govern the ownership threshold above which shareholder ownership must be disclosed.

An exempted company incorporated under the laws of the Cayman Islands is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the NYSE. Accordingly, for so long as the shares of the Company are listed on the NYSE, the Company is not required to maintain a beneficial ownership register.

Differences Between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

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.

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 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 have entered into indemnification agreements with our directors and senior executive officers that 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.

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.

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 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 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 vote, he must still comply with his duty to act bona fide in the best interest of our company.

In comparison, under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

Shareholder Proposals. Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided that it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

There are no statutory requirements under Cayman Islands law allowing our shareholders to requisition a shareholders' meeting. However, under our Articles of Association, on the requisition of shareholders representing not less than 33% of the voting rights entitled to vote at general meetings, the board shall convene an extraordinary general meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings, and our Articles of Association do not require us to call such meetings every year.

Cumulative Voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. As permitted under Cayman Islands law, our Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors. Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Articles of Association, directors may be removed by an ordinary resolution of shareholders.

Transactions with Interested Shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution; Winding Up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Under the Companies Law, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our Articles of Association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only with the consent in writing of the holders of two-thirds of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under Cayman Islands law, our Memorandum and Articles of Association may only be amended by a special resolution of our shareholders.

Rights of Non-Resident or Foreign Shareholders. There are no limitations imposed by our Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Directors' Power to Issue Shares. Subject to applicable law, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

Changes in Capital (Item 10.B.10 of Form 20-F)

Our shareholders may from time to time by ordinary resolution in accordance with the Companies Law alter the conditions of our Memorandum of Association to:

- increase our share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- sub-divide our existing shares, or any of them into shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any unpaid on each reduced share shall be the same as it was in case of the share from which the reduced share is derived; or

- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Our shareholders may from time to time by special resolution, subject to any confirmation or consent required by the Law, reduce our share capital or any capital redemption reserve in any manner permitted by the Companies Law.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

Description of American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

American Depositary Receipts

Deutsche Bank Trust Company Americas is the depositary bank for the ADSs representing our common shares. Each ADS represents an ownership interest in four common shares which we deposit with the custodian under the deposit agreement among our company, the depositary and yourself as an ADS holder. Each ADS also represents any securities, cash or other property deposited with the depositary but which it has not distributed directly to you. Your ADSs will be evidenced by what are known as American depositary receipts, or ADRs, in the same way a share is evidenced by a share certificate.

The following is a summary of the material provisions of the deposit agreement dated as of September 12, 2006, as amended as of June 5, 2007, August 5, 2011 and April 25, 2012. For more complete information, you should read the entire deposit agreement and the form of ADR and supplements and amendments thereto. Copies of the deposit agreement, as amended, are on file with the SEC under covers of Registration Statements on Form F-6 (File No. 333-136862) and Form F-6 (File No. 333-176069). You may also obtain a copy of the deposit agreement at the SEC's public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549, United States of America. You may obtain information on the operation of the Public Reference Room by calling the SEC at +1-800-732-0330. Copies of the deposit agreement and the form of ADR are also available for inspection at the corporate trust office of Deutsche Bank Trust Company Americas, currently located at 60 Wall Street, New York, New York 10005, United States of America, and at the principal office of Deutsche Bank AG, Hong Kong Branch, as the custodian, currently located at 57/F International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong S.A.R., People's Republic of China. Deutsche Bank Trust Company Americas' principal executive office is located at 60 Wall Street, New York, New York 10005, United States of America. The depositary will keep books at its corporate trust office for the registration of ADRs and transfers of ADRs which, at all reasonable times, shall be open for inspection by ADS holders, provided that inspection shall not be for the purpose of communicating with ADS holders in the interest of a business or object other than our business or a matter related to the deposit agreement or the ADSs.

Holding the ADSs

How will you hold your ADSs?

ADSs shall be held electronically in book-entry form through The Depository Trust Company in your name or indirectly through your broker or other financial institution. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are. This description assumes that you hold your ADSs directly solely for the purposes of summarizing the deposit agreement.

We will not treat an ADR holder as one of our shareholders and you will not have shareholder rights. Cayman Islands law governs shareholder rights. The depository will be the holder of the shares underlying your ADSs. As a holder of ADRs, you will have ADR holder rights. A deposit agreement among us, the depository and you, as an ADR holder, and the beneficial owners of ADRs sets out ADR holder rights, representations and warranties as well as the rights and obligations of the depository.

If you become a holder of ADSs, you will become a party to the deposit agreement and therefore will be bound by its terms and by the terms of the ADR that represents your ADSs. The deposit agreement and the ADR specify our rights and obligations as well as your rights and obligations as a holder of ADSs and those of the depository bank. As an ADS holder you appoint the depository bank to act on your behalf in certain circumstances. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of common shares will continue to be governed by Cayman Islands law, which may be different from the laws in the US.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depository has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees, charges and expenses and any taxes withheld, duties or other governmental charges. You will receive these distributions in proportion to the number of shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our common shares) set by the depository with respect to the ADSs.

- *Cash.* The depository will convert any cash dividend or other cash distribution we pay on the shares or any proceeds from the sale of any shares, rights, securities or other entitlements into U.S. dollars, if it can do so in its judgment on a practicable basis and can transfer the U.S. dollars to the United States. If that is not practicable or if any government approval is needed and cannot be obtained, the deposit agreement allows the depository to distribute the foreign currency only to those ADR holders to whom it is practicable to do so. The depository will hold the foreign currency it cannot convert for the account of the ADR holders who have not been paid. The depository will not invest the foreign currency and it will not be liable for any interest.

- Before making a distribution, the depositary will deduct any withholding taxes that must be paid. See “Taxation.” It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.
- *Shares.* The depositary may distribute additional ADSs representing any shares we distribute as a dividend or free distribution to the extent permissible by law. The depositary will only distribute whole ADSs. It will try to sell shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new shares.
- *Elective Distributions in Cash or Shares.* If we offer holders of our common shares the option to receive dividends in either cash or common shares, the depositary, after consultation with us and having received timely notice of such elective distribution by us, has discretion to determine to what extent such elective distribution will be made available to you as a holder of the ADSs. We must first instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practical to make such elective distribution available to you, or it could decide that it is only legal or reasonably practical to make such elective distribution available to some but not all holders of the ADSs. In such case, the depositary shall, on the basis of the same determination as is made in respect of the common shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing common shares in the same way as it does in a share distribution. The depositary is not obligated to make available to you a method to receive the elective dividend in common shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of common shares.
- *Rights to Receive Additional Shares.* If we offer holders of our securities any rights to subscribe for additional common shares or any other rights, the depositary, after consultation with us and having received timely notice of such distribution by us, has discretion to determine how these rights become available to you as a holder of ADSs. We must first instruct the depositary to do so and furnish it with satisfactory evidence that it is legal to do so. The depositary could decide it is not legal or reasonably practical to make the rights available to you, or it could decide that it is only legal or reasonably practical to make the rights available to some but not all holders of the ADSs. The depositary may decide to sell the rights and distribute the proceeds in the same way as it does with cash. If the depositary decides that it is not legal or reasonably practical to make the rights available to you or to sell the rights, the rights that are not distributed or sold could lapse. In that case, you will receive no value for them. The depositary is not responsible for a failure in determining whether or not it is legal or reasonably practical to distribute the rights. The depositary is liable for damages, however, if it acts with gross negligence or bad faith, in accordance with the provisions of the deposit agreement.

If the depositary makes rights available to you, it will exercise the rights and purchase the common shares on your behalf. The depositary will then deposit the common shares and issue ADSs to you. It will only exercise rights if you pay it the exercise price and any other fees and charges of, and expenses incurred by, the depositary and any taxes and other governmental charges the rights require you to pay.

U.S. securities laws may restrict the sale, deposit, cancellation, and transfer of the ADSs issued after an exercise of rights. For example, you may not be able to trade the new ADSs freely in the United States. In this case, the depositary may issue the new ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the restrictions in place.

- *Other Distributions.* Subject to receipt of timely notice from us with the request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and feasible and in accordance with the terms of the deposit agreement, the depositary will send to you anything else we distribute on deposited securities by any means it deems practical in proportion to the number of ADSs held by you, upon receipt of applicable fees and charges of, and expenses incurred by, the depositary and net of any taxes and other governmental charges withheld. If it cannot make the distribution in that way, or has not received a timely request for distribution from us, the depositary has a choice. It may decide to sell by public or private sale, net of fees and charges of, and expenses incurred by, the depositary and any taxes and other governmental charges, what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to dispose of such property in any way it deems reasonably practicable for nominal or no consideration. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from us that it is legal to make that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADRs, shares, rights or anything else to ADR holders. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal, impractical or infeasible for us or the depositary to make them available to you.

Deposit and Withdrawal

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposits shares with the custodian. Shares deposited in the future with the custodian must be accompanied by documents, including instruments showing that those shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made.

The custodian will hold all deposited shares, including those being deposited by or on behalf of us in connection with this offering to which this prospectus relates, for the account of the depository. You thus have no direct ownership interest in the shares and only have the rights that are set out in the deposit agreement. The custodian also will hold any additional securities, property and cash received on, or in substitution for, the deposited shares. The deposited shares and any such additional items are all referred to as “deposited securities.”

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of, and expenses incurred by, the depository and of any taxes or charges, such as stamp taxes or share transfer taxes or fees, the depository will issue an ADR or ADRs in the name of the person entitled thereto evidencing the number of ADSs to which that person is entitled.

How do ADS holders cancel an ADR and obtain shares?

You may surrender your ADRs through instruction provided to your broker. Upon payment of its fees and charges of, and expenses incurred by, it and of any taxes or charges, such as stamp taxes or share transfer taxes or fees, the depository will deliver the shares and any other deposited securities underlying the ADR to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depository will deliver the deposited securities at its principal New York office or any other location that it may designate as its transfer office, if feasible.

You have the right to cancel your ADSs and withdraw the underlying common shares at any time subject only to:

- temporary delays caused by closing our or the depository’s transfer books or the deposit of our common shares in connection with voting at a shareholders’ meeting or the payment of dividends;
- the payment of fees, taxes and similar charges; or
- compliance with any U.S. or foreign laws or governmental regulations relating to the ADRs or to the withdrawal of the deposited securities.

U.S. securities laws provide that this right of withdrawal may not be limited by any other provision of the deposit agreement.

Redemption

Whenever we decide to redeem any of the shares on deposit with the custodian, we will notify the depository. If it is reasonably practicable and if we provide all of the documentation contemplated in the deposit agreement, the depository bank will mail notice of the redemption to the holders.

The custodian will be instructed to surrender the shares being redeemed against payment of the applicable redemption price. The depository will convert the redemption funds received into US dollars upon the terms of the deposit agreement and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their ADSs to the depository bank. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your ADSs. If less than all ADSs are being redeemed, the ADSs to be redeemed will be selected by lot or on a pro rata basis, as the depository bank may determine.

Transmission of Notices to Shareholders

We will promptly transmit to the depository those communications that we make generally available to our shareholders together with annual and other reports prepared in accordance with applicable requirements of U.S. securities laws in English. If those communications were not originally in English, we will translate them. Upon our request, and at our expense, subject to the distribution of any such communications being lawful and not in contravention of any regulatory restrictions or requirements if so distributed and made available to holders, the depository will arrange for the timely mailing of copies of such communications to all ADS holders and will make a copy of such communications available for inspection at the depository's Corporate Trust Office, the office of the custodian or any other designated transfer office of the depository.

Voting Rights

How do you vote?

You may instruct the depository to vote the shares underlying your ADSs. You could exercise your right to vote directly if you withdraw the common shares. However, you may not know about the meeting sufficiently in advance to withdraw the common shares.

Upon receipt of timely notice from us, the depository will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will describe the matters to be voted on and explain how you, if you hold the ADSs on a date specified by the depository, may instruct the depository to vote the common shares or other deposited securities underlying your ADSs as you direct. For your instructions to be valid, the depository must receive them in writing on or before a date specified by the depository. The depository will try, as far as practical, subject to any applicable law and the provisions of our memorandum and articles of association, to vote or to have its agents vote the common shares or other deposited securities as you instruct. The depository will only vote or attempt to vote as you instruct and will not vote any shares where no instructions have been received. Furthermore, under the deposit agreement, if we do not timely procure the demand for a vote by poll with respect to any given resolution, and no other relevant party has made such a demand, the depository shall refrain from voting and any voting instructions received from any ADS holders shall lapse.

If the depository does not timely receive voting instructions from you, the depository has agreed to give a discretionary proxy to a person designated by us to vote the number of deposited securities represented by your ADSs. The depository will give such person a discretionary proxy in such circumstances to vote on all questions to be voted upon unless we inform the depository that:

- we do not wish to receive a discretionary proxy;
- we are aware that substantial shareholder opposition exists against the outcome for which our designee would vote; or
- the outcome for which our designee would vote would materially and adversely affect shareholder rights.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and if your common shares are not voted as you requested, you may have no recourse.

Reclassifications, Recapitalizations and Mergers

If we take actions that affect the deposited securities, including any change in par value, split-up, cancellation, consolidation or other reclassification of deposited securities to the extent permitted by any applicable law, any distribution on the shares that is not distributed to you, and any recapitalization, reorganization, merger, consolidation, liquidation or sale of our assets affecting us or to which we are a party, then the cash, shares or other securities received by the depositary will become deposited securities and ADRs will, be subject to the deposit agreement and any applicable law, evidence the right to receive such additional deposited securities, and the depositary may choose to:

- distribute additional ADRs;
- call for surrender of outstanding ADRs to be exchanged for new ADRs;
- distribute cash, securities or other property it has received in connection with such actions;
- sell any securities or property received at public or private sale on an averaged or other practicable basis without regard to any distinctions among holders and distribute the net proceeds as cash; or
- treat the cash, securities or other property it receives as part of the deposited securities, and each ADS will then represent a proportionate interest in that property.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the ADSs without your consent for any reason deemed necessary or desirable. You will be given at least 30 days' notice of any amendment that imposes or increases any fees or charges, except for taxes, governmental charges, delivery expenses or expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or which otherwise materially prejudices any substantial existing right of holders or beneficial owners of ADSs. If an ADS holder continues to hold ADSs after being so notified of these changes, that ADS holder is deemed to agree to that amendment and be bound by the ADRs and the agreement as amended. An amendment can become effective before notice is given if necessary to ensure compliance with a new law, rule or regulation.

How may the deposit agreement be terminated?

At any time, we may instruct the depository to terminate the deposit agreement, in which case the depository will give notice to you at least 90 days prior to termination. The depository may also terminate the agreement if it has told us that it would like to resign or we have removed the depository and we have not appointed a new depository bank within 90 days; in such instances, the depository will give notice to you at least 30 days prior to termination. After termination, the depository's only responsibility will be to deliver deposited securities to ADS holders who surrender their ADSs upon payment of any fees, charges, taxes or other governmental charges, and to hold or sell distributions received on deposited securities. After the expiration of one year from the termination date, the depository may sell the deposited securities which remain and hold the net proceeds of such sales, uninvested and without liability for interest, for the pro rata benefit of ADS holders who have not yet surrendered their ADSs. After selling the deposited securities, the depository has no obligations except to account for those net proceeds and other cash. Upon termination of the deposit agreement, we will be discharged from all obligations except for our obligations to the depository.

Books of Depository

The depository will maintain ADS holder records at its depository office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depository will maintain facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depository; Limits on Liability to Holders of ADRs

The deposit agreement expressly limits our and the depository's obligations and liability.

We and the depository, including its agents:

- are only obligated to take the actions specifically set forth in the deposit agreement without gross negligence or bad faith;

- are not liable if either of us is prevented or delayed in performing any obligation by law or circumstances beyond our control under the deposit agreement, including, without limitation, requirements of any present or future law, regulation, governmental or regulatory authority or share exchange of any applicable jurisdiction, any present or future provision of our memorandum and articles of association, on account of possible civil or criminal penalties or restraint, any provisions of or governing the deposited securities or any act of God, war or other circumstances beyond each of our control as set forth in the deposit agreement;
- are not liable if either of us exercises or fails to exercise the discretion permitted under the deposit agreement, the provisions of or governing the deposited securities or our memorandum and articles of association;
- disclaim any liability for any action/inaction on the advice or information of legal counsel, accountants, any person presenting shares for deposit, holders and beneficial owners (or authorized representatives) of ADRs, or any person believed in good faith to be competent to give such advice or information;
- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADSs;
- have no obligation to become involved in a lawsuit or other proceeding related to any deposited securities or the ADSs or the deposit agreement on your behalf or on behalf of any other party;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party; and
- disclaim any liability for any consequential or punitive damages for any breach of the terms of the deposit agreement.

The depositary and any of its agents also disclaim any liability for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities or for any tax consequences that may result from ownership of ADSs, shares or deposited securities and for any indirect, special, punitive or consequential damage.

We have agreed to indemnify the depositary under certain circumstances. The depositary may own and deal in any class of our securities and in ADSs.

The Depositary***Who is the depositary?***

The depositary is Deutsche Bank Trust Company Americas. The depositary is a state chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The depositary was incorporated on March 5, 1903 in the State of New York. The corporate trust office of the depositary is located at 60 Wall Street, New York, NY 10005, United States of America. The depositary operates under the laws and jurisdiction of the State of New York.

Supplemental Agreement

This supplemental agreement (hereinafter referred to as this “Agreement”) is entered into by and among the following parties in Beijing on October 10, 2019:

Party A: **Beijing Dexin Dongfang Network Technology Co., Ltd.**, a wholly foreign-owned enterprise duly incorporated and validly existing within the territory of the People’s Republic of China (hereinafter the “PRC”) with its uniform social credit code of 91110108MA01AWYY4A and its registered address at Suite 1701-07, F/17, Building No. 2, Haidian East Third Street, Haidian District, Beijing;

Party B: **New Oriental Education Technology Group Limited**, a limited liability company duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91110108726367151N and registered address at F/9, 6 Haidian Middle Street, Haidian District, Beijing;

Linzi Tencent Technology Co., Ltd., a limited liability company duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91540400MA6T10MD6L and its registered address at 202-3 Linzhi Biotechnology Industrial Park, Bayi Town, Bayi District, Linzhi City, Tibet;

Tianjin Xuncheng Yiyue Technology Partnership (L.P.), a limited partnership enterprise duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91120222MA05P74885 and its registered address at Suite 1105, Integrated Office Building, Beijing-Tianjin Electronic Commerce Industrial Park, Wuqing District, Tianjin;

Tianjin Xuncheng Luyue Technology Partnership (L.P.), a limited partnership enterprise duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91120222MA06H05071 and its registered address at Suite 1106, Integrated Office Building, Beijing-Tianjin Electronic Commerce Industrial Park, Wuqing District, Tianjin;

Tianjin Xuncheng Bayue Technology Partnership (L.P.), a limited partnership enterprise duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91120222MA05P38239 and its registered address at Suite 1108, Integrated Office Building, Beijing-Tianjin Electronic Commerce Industrial Park, Wuqing District, Tianjin;

Tianjin Xuncheng Jiuyue Technology Partnership (L.P.), a limited partnership enterprise duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91120222MA05P29199 and its registered address at Suite 1109, Integrated Office Building, Beijing-Tianjin Electronic Commerce Industrial Park, Wuqing District, Tianjin;

Tianjin Xuncheng Shiyue Technology Partnership (L.P.), a limited partnership enterprise duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91120222MA05N0621A and its registered address at Suite 1110, Integrated Office Building, Beijing-Tianjin Electronic Commerce Industrial Park, Wuqing District, Tianjin;

Tianjin Xuncheng Shieriyue Technology Partnership (L.P.), a limited partnership enterprise duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91120222MA06H0486G and its registered address at Suite 1107, Integrated Office Building, Beijing-Tianjin Electronic Commerce Industrial Park, Wuqing District, Tianjin;

Tianjin Xuncheng Shisanyue Technology Partnership (L.P.), a limited partnership enterprise duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91120222MA06G95810 and its registered address at Suite 1111, Integrated Office Building, Beijing-Tianjin Electronic Commerce Industrial Park, Wuqing District, Tianjin.

Party C: **Beijing New Oriental-Xuncheng Network Technologies Co., Ltd.**, a company limited by shares duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 9111010877256341X4 and registered address at 1801-08 F/18, No.2 Haidian East Third Street, Haidian District, Beijing.

Party C's subordinate institutions: all the entities mentioned in [Appendix I](#), and the institutions invested and controlled by Party C from time to time in accordance with this Agreement (including control through agreement arrangement).

Party D: **Zhuhai Chongsheng Heli Network Technology Co., Ltd.**, a limited liability company duly incorporated and validly existing within the territory of PRC with its uniform social credit code of 91440400MA53HUAU2Y and registered address at Suite 105-67654, 6 Baohua Street, Hengqin Xin District, Zhuhai.

Party A, Party B, Party C, Party C's subordinate institutions and Party D are hereinafter referred to as a "Party" individually, and collectively as the "Parties".

WHEREAS:

Party A, Party B, Party C and Party C's subordinate institutions have respectively or collectively signed Exclusive Option Purchase Agreement, Exclusive Management Consultancy and Cooperation Agreement, Equity Pledge Agreement, Powers of Attorney, and Letters of Undertaking (hereinafter collectively referred to as the "Original Agreements").

NOW, THEREFORE, through friendly negotiations, Parties reach the following agreement with respect to Party D's joinder as a party to the Original Agreements:

1. Parties agree that Party D is hereby made a party to the Original Agreements and shall gain all rights enjoyed by Party A and share, with Party A, all obligations born by Party A thereunder.
2. This Agreement shall become effective upon execution. This Agreement shall be dissolved or terminated concurrently with the dissolution or termination of the Original Agreements.

3. This Agreement shall constitute a valid part of the Original Agreements and have equal effect. This Agreement shall prevail if there is any inconsistency between this Agreement and the Original Agreements.
4. Except for the subjects hereof, the Original Agreements shall remain in full force and effect, and for the subjects not in the Original Agreements, Parties shall resolve such subjects through negotiation.
5. This Agreement shall be executed in thirteen (13) counterparts, and each Party shall maintain one (1) counterpart. Each counterpart shall have the same legal effect.

(The remainder of this page is intentionally left blank)

(The remainder of this page is intentionally left blank; execution page of the Supplemental Agreement)

Party A: Beijing Dexin Dongfang Network Technology Co., Ltd. (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

(The remainder of this page is intentionally left blank; execution page of the Supplemental Agreement)

Party B: New Oriental Education Technology Group Limited (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

(The remainder of this page is intentionally left blank; execution page of the Supplemental Agreement)

Party B: Linzhi Tencent Technology Co., Ltd. (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

(The remainder of this page is intentionally left blank; execution page of the Supplemental Agreement)

Party B:

Tianjin Xuncheng Yiyue Technology Partnership (L.P.) (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

Tianjin Xuncheng Luyue Technology Partnership (L.P.) (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

Tianjin Xuncheng Bayue Technology Partnership (L.P.) (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

Tianjin Xuncheng Jiuyue Technology Partnership (L.P.) (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

(The remainder of this page is intentionally left blank; execution page of the Supplemental Agreement)

Party B:

Tianjin Xuncheng Shiyue Technology Partnership (L.P.) (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

Tianjin Xuncheng Shiyue Technology Partnership (L.P.) (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

Tianjin Xuncheng Shisanyue Technology Partnership (L.P.) (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

(The remainder of this page is intentionally left blank; execution page of the Supplemental Agreement)

Party C: Beijing New Oriental-Xuncheng Network Technologies Co., Ltd. (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

(The remainder of this page is intentionally left blank; execution page of the Supplemental Agreement)

Subordinate Institutions of Party C:

Beijing Kuxue-Huisi Network Technology Co., Ltd. (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

Beijing Dongfang Youbo Network Technology Co., Ltd. (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

(The remainder of this page is intentionally left blank; execution page of the Supplemental Agreement)

Party D: Zhuhai Chongsheng Heli Network Technology Co., Ltd. (seal)

/s/ seal

Signed by the Legal Representative or Authorized Representative:

/s/ the Legal Representative or Authorized Representative

Appendix I: List of the Subordinate Institutions of Party C

- | <u>No</u> | <u>Name</u> |
|-----------|---|
| 1. | Beijing Kuxue-Huisi Network Technology Co., Ltd. |
| 2. | Beijing Dongfang Youbo Network Technology Co., Ltd. |

Letter of Acceptance

We, Beijing Dongfang Youbo Network Technology Co., Ltd., are a duly incorporated limited liability company. We have finished the register of share transfer on August 21, 2019 and after which Beijing New Oriental-Xuncheng Network Technologies Co., Ltd. (hereinafter referred to as "Xuncheng") holds 100% equity interests of us.

According to the Exclusive Management Consultancy and Cooperation Agreement (hereinafter referred to as the "Agreement") dated as of May 10, 2018 among Beijing Dexin Dongfang Network Technology Co., Ltd., Xuncheng and its shareholders and other parties therein, we shall join the Agreement as a new subordinate institution of Party B under article 9.1 of the Agreement.

We hereby agree to join the Agreement as a subordinate institution of Xuncheng from the effective date of this Letter of Acceptance, and gain all rights and assume all obligations under the Agreement (including its amendments and supplements from time to time). This Letter of Acceptance shall become effective upon the date of execution.

Beijing Dongfang Youbo Network Technology Co., Ltd. (seal)

/s/ seal

Signed by the Legal Representative:

/s/ the Legal Representative or Authorized Representative

October 10, 2019

List of Subsidiaries and Variable Interest Entities

Name	Jurisdiction of Incorporation	Direct Parent Company of the Subsidiary and its Jurisdiction of Incorporation
Subsidiaries:		
Beijing Decision Education & Consulting Co., Ltd.	PRC	Elite Concept Holdings Limited (Hong Kong)
Beijing Hewstone Technology Co., Ltd.	PRC	Elite Concept Holdings Limited (Hong Kong)
Beijing Pioneer Technology Co., Ltd.	PRC	Smart Shine International Limited (Hong Kong)
Beijing Smart Wood Software Technology Co., Ltd.	PRC	Smart Shine International Limited (Hong Kong)
Elite Concept Holdings Limited	Hong Kong	New Oriental Education & Technology Group Inc. (Cayman Islands)
Winner Park Limited	Hong Kong	New Oriental Education & Technology Group Inc. (Cayman Islands)
Smart Shine International Limited	Hong Kong	New Oriental Education & Technology Group Inc. (Cayman Islands)
Koolearn Technology Holding Limited	Cayman	New Oriental Education & Technology Group Inc. (Cayman Islands)
New Oriental Xuncheng Technology (HK) Limited	Hong Kong	Koolearn Technology Holding Limited (Cayman Islands)
Beijing Dexin Dongfang Network Technology Co., Ltd.	PRC	New Oriental Xuncheng Technology (HK) Limited (Hong Kong)
Zhuhai Chongsheng Heli Network Technology Co., Ltd.	PRC	New Oriental Xuncheng Technology (HK) Limited (Hong Kong)
Variable Interest Entities:		
New Oriental Education & Technology Group Co., Ltd.*	PRC	
Beijing New Oriental Xuncheng Network Technology Co., Ltd.	PRC	

(1) * New Oriental Education & Technology Group Co., Ltd. had a number of subsidiaries and schools in the PRC as of May 31, 2020, including:

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

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Chenggang Zhou, certify that:

1. I have reviewed this annual report on Form 20-F of New Oriental Education & Technology Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: September 16, 2020

By: /s/ Chenggang Zhou
Name: Chenggang Zhou
Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Zhihui Yang, certify that:

1. I have reviewed this annual report on Form 20-F of New Oriental Education & Technology Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: September 16, 2020

By: /s/ Zhihui Yang
Name: Zhihui Yang
Title: Chief Financial Officer

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of New Oriental Education & Technology Group Inc. (the “Company”) on Form 20-F for the year ended May 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Chenggang Zhou, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 16, 2020

By: /s/ Chenggang Zhou

Name: Chenggang Zhou

Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of New Oriental Education & Technology Group Inc. (the “Company”) on Form 20-F for the year ended May 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Zhihui Yang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 16, 2020

By: /s/ Zhihui Yang

Name: Zhihui Yang

Title: Chief Financial Officer

TIAN YUAN LAW FIRM

**10/F, CPIC Plaza,
No. 28 FengSheng Hutong,
Xicheng District, Beijing, 100032,
P.R.China
Tel: (8610) 5776-3888;
Fax: (8610) 5776-3777.**

Date: September 16, 2020

New Oriental Education & Technology Group Inc.
No. 6 Hai Dian Zhong Street
Haidian District, Beijing
100080, People's Republic of China

Ladies and Gentlemen:

We hereby consent to the use of our name under the captions "Item 3. Key Information—D. Risk Factors," "Item 4. Information on the Company—B. Business Overview—Regulation," "Item 4. Information on the Company—C Organizational Structure" and "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Critical Accounting Policies" and included in New Oriental Education & Technology Group Inc.'s annual report on Form 20-F for the fiscal year ended May 31, 2020 (the "Annual Report"), which will be filed by New Oriental Education & Technology Group Inc. on or after September 16, 2020, with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. We further consent to the incorporation by reference into the Registration Statements on Form S-8 (No. 333-140083, No. 333-172020 and No. 333-222724) of New Oriental Education & Technology Group Inc. of the summary of our opinion under the headings "Item 3. Key Information—D. Risk Factors," "Item 4. Information on the Company—B. Business Overview—Regulation," "Item 4. Information on the Company—C. Organizational Structure" and "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Critical Accounting Policies." We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Tian Yuan Law Firm

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No.333-172020, 333-140083 and 333-222724 on Form S-8 of our reports dated September 16, 2020, relating to the financial statements of New Oriental Education & Technology Group Inc. and the effectiveness of New Oriental Education & Technology Group Inc.'s internal control over financial reporting appearing in this Annual Report on Form 20-F for the year ended May 31, 2020.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China
September 16, 2020