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NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

新东方教育科技(集团)有限公司*

(continued in the Cayman Islands with limited liability)

(Stock Code: 9901)

ANNUAL REPORT FOR FY2023

We are pleased to publish our annual report for the fiscal year ended May 31, 2023, containing our audited annual results for this reporting period. This document is provided to our shareholders as our annual report pursuant to Rule 13.46(2) of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*. This document is available on the websites of Hong Kong Stock Exchange (www.hkexnews.hk) and our website (<http://investor.neworiental.org/>).

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By order of the Board
New Oriental Education & Technology Group Inc.
Mr. Michael Minhong Yu
Chairman

Beijing, China, September 25, 2023

As at the date of this announcement, the board of directors of the Company comprises Mr. Michael Minhong Yu, Mr. Chenggang Zhou and Mr. Louis T. Hsieh as directors and Mr. Robin Yanhong Li, Mr. Denny Lee and Mr. John Zhuang Yang as independent directors.

* for identification purposes only.

Section A
Extracted Form 20-F

The following section is a re-production of extracted portions of the full set of the Form 20-F of the Company that was filed with the Securities and Exchange Commission of the United States of America (the “**SEC**”) on September 25, 2023 (New York Time). The full Form 20-F of the Company (including full text of exhibits) is available on the SEC website.

**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, 2023.

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-32993

**NEW ORIENTAL EDUCATION & TECHNOLOGY
GROUP INC.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

No. 6 Hai Dian Zhong Street
Haidian District, Beijing 100080
People's Republic of China
(Address of principal executive offices)

Zhihui Yang, Executive President and Chief Financial Officer
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 Fax: +(86 10) 6260-5511
 No. 6 Hai Dian Zhong Street
 Haidian District, Beijing 100080
 People's Republic of China

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

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

Title of Each Class	Trading Symbol(s)	Name of Exchange on Which Registered
American depositary shares, each representing ten common shares*	EDU	New York Stock Exchange
Common shares, par value US\$0.001 per share**	9901	The Stock Exchange of Hong Kong Limited

* 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. Effective on April 8, 2022, the ratio of ADSs to our common shares was further changed from one ADS representing one common share to one ADS representing ten common shares.

** Effective on March 10, 2021, we implemented a one-for-ten share split, in which each common share of par value of US\$0.01 each were subdivided into ten common shares, with a par value of US\$0.001 each.

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. 1,643,162,653 common shares, par value US\$0.001 per share, as of May 31, 2023.

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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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., a Cayman Islands company, its predecessor entities and subsidiaries. We conduct our operations in China through (i) our PRC subsidiaries, (ii) the variable interest entities with which we have contractual arrangements, and (iii) the subsidiaries and/or schools of the variable interest entities. The consolidated variable interest entities are PRC companies conducting operations in China, and their financial results have been consolidated into our consolidated financial statements under U.S. GAAP for accounting purposes;
- “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 a variable interest entity whose financial results are consolidated into our consolidated financial statements in accordance with U.S. GAAP;
- “Beijing Xuncheng” refers to Beijing New Oriental Xuncheng Network Technology Co., Ltd., which is a domestic PRC company and the variable interest entity of our majority-owned subsidiary, East Buy Holding Limited (formerly known as Koolearn Technology Holding Limited), and whose financial results are consolidated into our consolidated financial statements in accordance with U.S. GAAP;
- “VIEs” or “variable interest entities” refers to Beijing Xuncheng and New Oriental China, all of which are domestic PRC companies in which we do not have equity interests but whose financial results have been consolidated into our consolidated financial statements in accordance with U.S. GAAP;
- “consolidated affiliated entities” refers to New Oriental China and its schools and subsidiaries in China and Beijing Xuncheng and its subsidiaries in China;
- “CCASS” are to the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchange and Clearing Limited;
- “China” or “PRC” refers to People’s Republic of China, and for the purpose of this annual report, excludes Taiwan, Hong Kong and Macau;
- “Companies (WUMP) Ordinance” are to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time;
- “FRC” refers to Financial Reporting Council;
- “HK\$” or “Hong Kong dollars” or “HK dollars” are to Hong Kong dollars, the lawful currency of Hong Kong;
- “Hong Kong” or “HK” or “Hong Kong S.A.R.” are to the Hong Kong Special Administrative Region of the PRC;
- “Hong Kong Listing Rules” are to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time;
- “Hong Kong Share Registrar” are to Computershare Hong Kong Investor Services Limited;
- “Hong Kong Stock Exchange” are to The Stock Exchange of Hong Kong Limited;

- “Main Board” are to the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange;
- “active paid users” are to users who visit and logged in our intelligent learning system and devices at least once and also make payments for our products and services at least once in a given period, after eliminating duplicates;
- “SFC” are to the Securities and Futures Commission of Hong Kong;
- “SFO” are to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time;
- “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;
- “shares” or “common shares” refers to our common shares, par value US\$0.001 per share. Except as otherwise indicated, all share and per share data in this annual report give retroactive effect to the one-for-ten share split that became effective on March 10, 2021;
- “ADSs” refers to our American depository 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. On April 8, 2022, the ratio of ADSs to our common shares was further changed from one ADS representing one common share to one ADS representing ten common shares. Except as otherwise noted, these changes 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.

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 and Hong Kong dollars to U.S. dollars in this annual report on Form 20-F were made at a rate of RMB7.1100 to US\$1.00 and HK\$7.8304 to US\$1.00, the respective exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on May 31, 2023. We make no representation that any Renminbi, Hong Kong dollars or U.S. dollar amounts could have been, or could be, converted into U.S. dollars, Hong Kong 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)
A Level	Advanced Level (Commonwealth countries)
AP	Advanced Placement (United States)
GCSE	General Certificate of Secondary Education (Commonwealth countries)
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)
SAT	SAT College Entrance Test (US)

SSAT	Secondary School Admission Test (US)
TOEFL	Test of English as a Foreign Language (US)
TOEFL Junior	Test of English as a Foreign Language for students aged 11 or above (US)
TOEIC	Test of English for International Communication (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;
- competition in each type of educational program, service and product we provide;
- risks associated with our offering of new educational programs, services and products;
- 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.

ITEM 3. KEY INFORMATION

Our Holding Company Structure and Contractual Arrangements with the VIEs

New Oriental Education & Technology Group Co., Inc. is not a Chinese operating company but a Cayman Islands holding company with no equity ownership in the VIEs. We conduct our operations in China through (i) our PRC subsidiaries, (ii) the VIEs with which we have contractual arrangements, and (iii) the subsidiaries and/or schools of the VIEs. PRC laws and regulations restrict and impose conditions on foreign direct investment in companies involved in the provision of educational and value-added telecommunication services. Therefore, we operate such businesses in China through the consolidated affiliated entities and rely on contractual arrangements among our PRC subsidiaries, the VIEs and their shareholders to control the business operations of the consolidated affiliated entities and are considered the primary beneficiary of these entities, whose financial results are consolidated in New Oriental Education & Technology Group Co., Inc.'s consolidated financial statements under the U.S. GAAP for accounting purposes. Revenues contributed by the consolidated affiliated entities accounted for 99.9%, 99.6% and 99.5% of our total net revenues for the fiscal years ended May 31, 2021, 2022 and 2023, respectively. As used in this annual report, "we," "us," "our company" or "our" refers to New Oriental Education & Technology Group Co., Inc. a Cayman Islands company, its predecessor entities and subsidiaries. Investors of our ADSs and/or common shares thus are not purchasing equity interest in the VIEs in China but instead are purchasing equity interests in a holding company incorporated in the Cayman Islands. The consolidated variable interest entities are PRC companies conducting operations in China, and their financial results have been consolidated into our consolidated financial statements under U.S. GAAP for accounting purposes. New Oriental Education & Technology Group Co., Inc. is a holding company with no operations of its own. We do not have any equity ownership in the consolidated variable interest entities.

A series of contractual agreements, including equity pledge agreements, exclusive option agreement, powers of attorney, service agreements, have been entered into by and among our wholly-owned subsidiaries in China, the VIEs and their respective shareholders. These contractual agreements mainly include:

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

(i) equity pledge agreements, pursuant to which, Century Friendship agreed to pledge its equity interests in New Oriental China to our subsidiaries to secure New Oriental China's and its schools and subsidiaries' performance of their obligations under the relevant 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;

(ii) exclusive option agreement, pursuant to this 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;

(iii) powers of attorney, 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;

(iv) service agreements, which enable our wholly-owned subsidiaries in China to receive substantially all of the economic benefits of New Oriental China and its schools and subsidiaries.

Contractual Arrangements with Beijing Xuncheng, Its Subsidiaries and Shareholders

(i) equity pledge agreements, pursuant to which, each of the then shareholders 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 then 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;

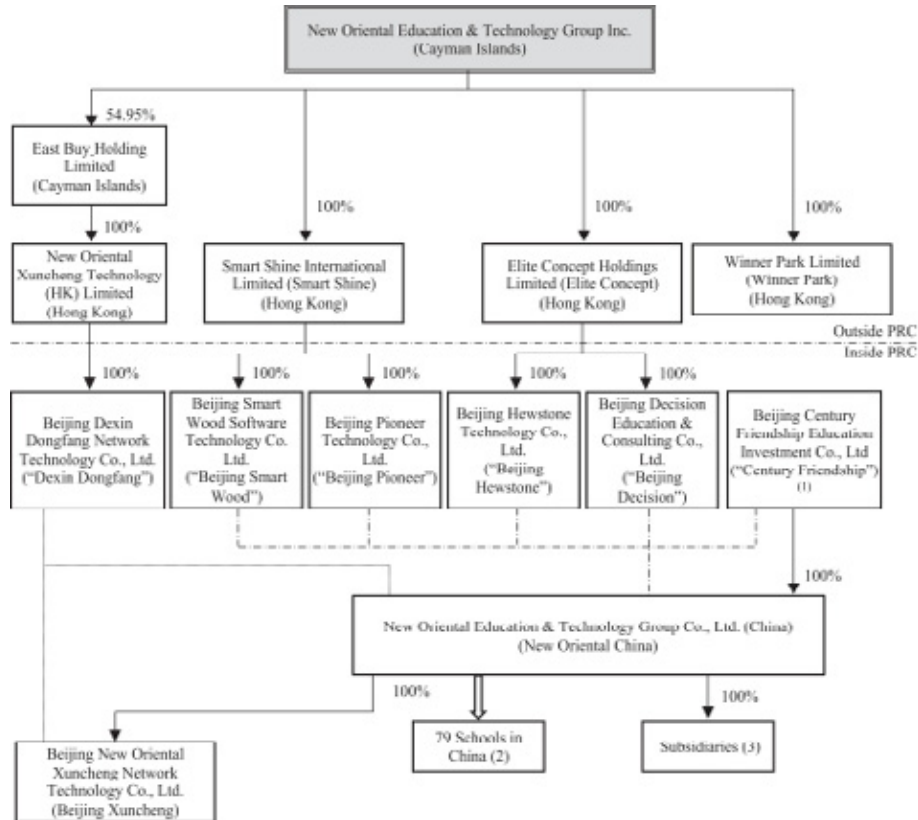
(ii) exclusive option agreement, pursuant to this agreement, Beijing Xuncheng's then shareholders unconditionally and irrevocably agreed to grant Dexin Dongfang an exclusive option to purchase all or part of the equity interests in Beijing Xuncheng for the minimum amount of consideration permitted by PRC law;

(iii) powers of attorney, whereby each of Beijing Xuncheng's then shareholders 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;

(iv) exclusive management consultancy and cooperation agreement, pursuant to which, 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.

As a result of the contractual arrangements, we are considered the primary beneficiary of the VIEs, and we have consolidated their financial results in our consolidated financial statements. For more details 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" and "—Contractual Arrangements with Beijing Xuncheng, Its Subsidiaries and Shareholders."

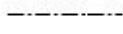
The following chart illustrates our company’s organizational structure, including our significant subsidiaries and VIEs as of May 31, 2023:



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, power of attorney, exclusive management consultancy and cooperation agreement. 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. Zhihui Yang, our executive president and chief financial officer. In November 2019, Ms. Bamei Li, Mr. Yu's mother, completed the transfer of the equity interest in Century Friendship held by her to Mr. Michael Minhong Yu and Mr. Zhihui Yang, prior to such transfer, Century Friendship was 80% owned by Mr. Yu and 20% owned by Ms. Bamei Li.
- (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) Excluding Beijing Xuncheng and its subsidiaries, and consisting of various PRC companies operating our educational materials and distribution business, and overseas study consulting business in China.

However, the contractual arrangements is not as effective as direct ownership in providing us with control over the VIEs. If we had direct ownership of the VIEs, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of these entities, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the contractual agreements, we rely on the performance by the VIEs and their respective shareholders of their obligations under the contracts to exercise control over and receive economic benefits from the VIEs. In addition, we cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or such conflicts will be resolved in our favor. In addition, these individuals may breach, or cause the VIEs to breach, or refuse to renew, the existing contractual agreements. If we cannot resolve any conflict of interest or dispute between us and these individuals, 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. As such, we may incur substantial costs to enforce the terms of the arrangements. In addition, our contractual arrangements have not been tested in a court of law as of the date of this annual report. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements for our operations in China, which is not as effective in providing operational control as direct ownership" and "Item 3. Key Information—D. Risk Factors—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" for further details.

Our corporate structure is subject to unique risks associated with our contractual arrangements with the VIEs. If the PRC government deems that our contractual arrangements with the VIEs do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations. The PRC regulatory authorities could disallow the variable interest entity structure, which would likely result in a material adverse change in our operations, and our ADSs and/or common shares may decline significantly in value or become worthless. Our holding company, our PRC subsidiaries and the VIEs, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIEs and, consequently, significantly affect the financial performance of the VIEs and our company as a whole. For a detailed description of the risks associated with our corporate structure, please refer to risks disclosed under "Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure."

The interpretation and application of current and future PRC laws, regulations and rules regarding the status of the rights of our Cayman Islands holding company with respect to its contractual arrangements with the VIEs and their nominee shareholders are subject to changes. It is uncertain whether any new PRC laws or regulations related to variable interest entity structures will be adopted or, if adopted, what they would provide. If we or any of the VIEs is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required licenses, permits or approvals, the relevant PRC regulatory authorities would have wide discretion within their scope of authority to take action in dealing with such violations or failures. 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—The interpretation and implementation of the Foreign Investment Law are subject to changes and it remains uncertain as to how it may impact the viability of our current corporate structure, corporate governance, business, financial condition and results of operations."

We face various risks and uncertainties related to doing business in China. Our business operations are primarily conducted in China, and we are subject to complex and evolving PRC laws and regulations. For example, we face risks associated with regulatory approvals on offshore offerings, anti-monopoly regulatory actions, regulations on the use of variable interest entities, regulations on the education industry, regulations on online live-streaming and advertising, and oversight on cybersecurity and data privacy, as well as the lack of inspection on our auditors by the Public Company Accounting Oversight Board, or the PCAOB, which may impact our ability to conduct certain businesses, accept foreign investments, or list and conduct offerings on a United States or other foreign exchange. These risks could result in a material adverse change in our operations and the value of our ADSs and/or common shares, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline. For a detailed description of risks related to doing business in China, “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China.”

The PRC government’s significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations in this nature may cause the value of such securities to significantly decline. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s oversight and discretion over our business operations could result in a material adverse change in our operations and the value of our ADSs and/or common shares.”

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of our ADSs. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the enforcement of laws, and changes in laws and regulations in China could adversely affect us.”

Permissions Required from the PRC Authorities for Our Operations and Overseas Financing Activities

Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, other than disclosed in “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—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,” “—If we fail to obtain and maintain the licenses and approvals required for online business in China, our business, financial condition and results of operations may be materially and adversely affected,” and “—Failure to comply with governmental regulation and other legal obligations concerning privacy, data protection and cybersecurity may subject us to penalties, damage our reputation and brand, and may materially and adversely affect our business, as we routinely collect, store and use data during our business,” and based on the advice of our PRC legal counsel, Tian Yuan Law Firm, we believe our PRC subsidiaries and the consolidated affiliated entities have obtained the requisite licenses and permits from the PRC government authorities for the business operations in China, including, among others, the private school operation permits, value-added telecommunications business operation licenses for internet information services, or ICP licenses, value-added telecommunications business operation license for electronic data interchange, or EDI license, Food Operation Licenses, Permits for Operating Publications, Commercial Performance Permit, Travel Agency Operation Permit, Healthcare License. Given the interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities are subject to changes, we may be required to obtain additional licenses, permits, filings or approvals for the services of our company in the future. For more detailed information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—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,” “—If we fail to obtain and maintain the licenses and approvals required for online business in China, our business, financial condition and results of operations may be materially and adversely affected” and “—Failure to comply with governmental regulation and other legal obligations concerning privacy, data protection and cybersecurity may subject us to penalties, damage our reputation and brand, and may materially and adversely affect our business, as we routinely collect, store and use data during our business.”

Furthermore, in connection with our issuance of securities to foreign investors in the past, under current PRC laws, regulations, and rules, as of the date of this annual report, we, our PRC subsidiaries, and the VIEs (i) have not been required to obtain permissions from or complete filings with the China Securities Regulatory Commission, or the CSRC, (ii) have not been required to go through cybersecurity review by the Cyberspace Administration of China, or the CAC, and (iii) have not received nor have been denied such requisite permissions by the CSRC or the CAC. Our PRC legal counsel has consulted the relevant government authority, which confirmed that, under the currently effective PRC laws and regulations, a company already listed in a foreign stock exchange before promulgation of the latest Cybersecurity Review Measures is not required to go through a cybersecurity review by the CAC to conduct a securities offering or maintain its listing status on the foreign stock exchange on which its securities have been listed. Therefore, we believe that under the currently effective PRC laws and regulations, we are not required to go through a cybersecurity review by the CAC for conducting a securities offering or maintaining our listing status on the NYSE. In addition, on February 17, 2023, the CSRC promulgated the Circular of the People’s Republic of China on Administrative Arrangements for Filing of Overseas Offering and Listing of Domestic Enterprises, or the Circular of Overseas Listing and Offering, and the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies and five relevant guidelines, or the Overseas Listing Trial Measures. The Overseas Listing Trial Measures became effective on March 31, 2023. Pursuant to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information. According to the Circular of Overseas Listing and Offering, issuers that have already been listed in an overseas market by March 31, 2023, such as our company, are not required to make any immediate filing. However, under the Overseas Listing Trial Measures, such issuers will be required to complete certain filing procedures with the CSRC in connection with future securities offerings and listings outside of mainland China, including follow-on offerings, issuance of convertible bonds, offshore relisting after going-private transactions, and other equivalent offering activities.

However, the PRC government has recently indicated an intent to exert more oversight over offerings that are conducted overseas and/or foreign investment in China-based issuers like us and published a series of rules in this regard, the interpretation and implementation of most of which are subject to changes. Therefore, there are substantial uncertainties as to how PRC governmental authorities will regulate overseas listing in general in the future and whether we are required to complete filing or obtain any specific regulatory approvals from the CSRC, CAC or any other PRC governmental authorities for our future offshore offerings. If we had inadvertently concluded that such approvals were not required, or if applicable laws, regulations or interpretations change in a way that requires us to obtain such approval in the future, we may be unable to obtain such necessary approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any such circumstance could subject us to penalties, including fines, suspension of business and revocation of required licenses, significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s oversight and discretion over our business operations could result in a material adverse change in our operations and the value of our ADSs and/or common shares.”

The Holding Foreign Companies Accountable Act

Pursuant to the Holding Foreign Companies Accountable Act, or the HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, including our auditor which is headquartered in mainland China. In October 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended May 31, 2022. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F. Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA. See “Item 3. Key Information—D. Risk Factors—Risk Factors Related to Doing Business in China—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections” and “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.”

Cash and Asset Flows through Our Organization

New Oriental Education & Technology Group Inc. is a Cayman Islands holding company with no operations of its own. We conduct our operations in China primarily through our subsidiaries and the VIEs and their subsidiaries and/or schools in China. As a result, although other means are available for us to obtain financing at the holding company level, New Oriental Education & Technology Group Inc.'s ability to pay dividends to the shareholders and to service any debt it may incur depends upon dividends paid by our PRC subsidiaries and service fees paid by the VIEs. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to New Oriental Education & Technology Group Inc. In addition, our PRC subsidiaries are permitted to pay dividends to New Oriental Education & Technology Group Inc. only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Further, our PRC subsidiaries and VIEs are required to make appropriations to certain statutory reserve funds or may make appropriations to certain discretionary funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies. For more details, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Holding Company Structure."

Under PRC laws and regulations, our subsidiaries and the VIEs and their subsidiaries and/or schools are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by a wholly foreign-owned enterprise out of China is also subject to examination by the banks designated by State Administration of Foreign Exchange, or SAFE. Furthermore, cash transfers from our PRC subsidiaries and the consolidated VIEs to entities outside of PRC are subject to PRC governmental control on currency conversion. As a result, the funds in our PRC subsidiaries or the consolidated VIEs in China may not be available to fund operations or for other use outside of China due to interventions in, or the imposition of restrictions and limitations on, the ability of our holding company, our subsidiaries, or the consolidated VIEs by the PRC government on such currency conversion. Although currently there are not equivalent or similar restrictions or limitations in Hong Kong on cash transfers in, or out of, our Hong Kong entities, if certain restrictions or limitations in China were to become applicable to cash transfers in and out of Hong Kong entities in the future, the funds in our Hong Kong entities, likewise, may not be available to fund operations or for other use outside of Hong Kong. For risks relating to the fund flows of our operations in China, see "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—We may rely on dividends and other distributions on equity paid by our wholly-owned subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries 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" and "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."

Under PRC law, New Oriental Education & Technology Group Inc. may provide funding to our PRC subsidiaries only through capital contributions or loans, and to the VIEs and their subsidiaries and/or schools only through loans, subject to satisfaction of applicable government registration that we are not able to make direct capital contribution. For the fiscal years ended May 31, 2021, May 31, 2022 and May 31, 2023, New Oriental Education & Technology Group Inc. received repayment of loans of nil, US\$282.1 million and US\$290.0 million from our intermediate holding companies and subsidiaries, respectively. For the fiscal years ended May 31, 2021, May 31, 2022 and May 31, 2023, New Oriental Education & Technology Group Inc. provided loans of US\$310.8 million, US\$330.4 million and US\$50.0 million to our intermediate holding companies and subsidiaries, respectively.

For the details of the financial position, cash flows and results of operation of the consolidated VIEs, please refer to the "Item 3. Key information—A. Selected Financial Data—Financial Information Related to the Consolidated Affiliated Entities."

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. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy.” For PRC and United States federal income tax considerations of an investment in our ADSs, see “Item 10. Additional Information—E. Taxation.”

We currently do not have cash management policies in place that dictate how funds are transferred between New Oriental Education & Technology Group Inc., our subsidiaries, the VIEs and the investors. Rather, the funds can be transferred in accordance with the applicable PRC laws and regulations.

For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid within China, assuming that: (i) we have taxable earnings, and (ii) we determine to pay a dividend in the future:

	Taxation Scenario⁽¹⁾ Statutory Tax and Standard Rates
Hypothetical pre-tax earnings ⁽²⁾	100%
Tax on earnings at statutory rate of 25% ⁽³⁾	(25%)
Net earnings available for distribution	75%
Withholding tax at standard rate of 10% ⁽⁴⁾	(7.5%)
Net distribution to Parent/Shareholders	67.5%

Notes:

- (1) For purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount, not considering timing differences, is assumed to equal taxable income in China.
- (2) Under the terms of contractual agreements, our PRC subsidiaries may charge the VIEs for services provided to VIEs. These fees shall be recognized as expenses of consolidated affiliated entities, with a corresponding amount as service income by our PRC subsidiaries and eliminate in consolidation. For income tax purposes, our PRC subsidiaries and the VIEs file income tax returns on a separate company basis. The fees paid are recognized as a tax deduction by the VIEs and as income by our PRC subsidiaries and under the assumption that all profits of the VIEs will be distributed as fees to our PRC subsidiaries under tax neutral contractual arrangements.
- (3) Certain of our subsidiaries and VIEs qualifies for a 15% preferential income tax rate in China. However, such rate is subject to qualification, is temporary in nature, and may not be available in a future period when distributions are paid. For purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate would be effective.
- (4) The PRC Enterprise Income Tax Law imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise, or FIE, to its immediate holding company outside of China. A lower withholding income tax rate of 5% is applied if the FIE’s immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with China, subject to a qualification review at the time of the distribution. For purposes of this hypothetical example, the table above assumes a maximum tax scenario under which the full withholding tax would be applied.

The table above has been prepared under the assumption that all profits of the VIEs will be distributed as fees to our PRC subsidiaries under tax neutral contractual arrangements. If, in the future, the accumulated earnings of the VIEs exceed the fees paid to our PRC subsidiaries (or if the current and contemplated fee structure between the intercompany entities is determined to be non-substantive and disallowed by Chinese tax authorities), the VIEs could, as a matter of last resort, make a non-deductible transfer to our wholly-owned subsidiaries in China for the amounts of the stranded cash in the VIEs. This would result in such transfer being non-deductible expenses for the VIEs but still taxable income for our PRC subsidiaries. Such a transfer and the related tax burdens would reduce our after-tax income.

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, 2021, 2022 and 2023 and the consolidated balance sheet data as of May 31, 2022 and 2023 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, 2019 and 2020 and the selected consolidated balance sheet data as of May 31, 2019, 2020 and 2021 have been derived from our audited consolidated financial statements for the fiscal years ended May 31, 2019, 2020 and 2021, 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,				
	2019	2020	2021	2022	2023
Selected Consolidated Statement of Operations Data:					
Net revenues:					
Net service revenues	3,043,263	3,529,650	4,230,638	3,050,022	2,544,729
Net product revenues	53,228	49,032	45,901	55,224	453,031
Total net revenues	3,096,491	3,578,682	4,276,539	3,105,246	2,997,760
Operating cost and expenses: ⁽¹⁾					
Cost of revenues	(1,376,269)	(1,588,899)	(2,036,875)	(1,754,291)	(1,409,438)
Selling and marketing	(384,287)	(445,259)	(600,778)	(466,895)	(444,693)
General and administrative	(1,028,783)	(1,145,521)	(1,489,826)	(1,866,573)	(953,583)
Impairment loss on intangible assets and goodwill	(5,245)	—	(31,794)	—	—
Selected Consolidated Statement of Operations Data:					
Total operating cost and expenses	(2,794,584)	(3,179,679)	(4,159,273)	(4,087,759)	(2,807,714)
Gain on disposal of a subsidiary	3,627	—	—	—	—
Operating income/(loss)	305,534	399,003	117,266	(982,513)	190,046
Other income/(expense):					
Interest income	97,530	116,117	141,511	123,542	114,453
Interest expense	(1,615)	(4,627)	(6,747)	(4,050)	(707)
Realized gain from long-term investments	26,379	407	3,535	22,004	767
Impairment loss from long-term investments	(5,919)	(31,750)	(40,207)	(129,350)	(8,056)
Loss from fair value change of long-term investments	(104,636)	(18,451)	(3,824)	(14,933)	(860)
Loss on deconsolidation of subsidiaries	—	—	—	(79,609)	—
Miscellaneous (loss)/income, net	(1,424)	27,137	103,443	32,411	12,888
Provision for income taxes:					
Current	(103,031)	(142,992)	(127,313)	(44,378)	(97,594)
Deferred	17,317	8,630	43,725	(91,934)	31,528
Provision for income taxes	(85,714)	(134,362)	(83,588)	(136,312)	(66,066)
(Loss)/Gain from equity method investments	(2,289)	1,385	(1,368)	(51,466)	(7,102)
Net income/(loss)	227,846	354,859	230,021	(1,220,276)	235,363
Less: Net (loss)/income attributable to non-controlling interests	(10,219)	(58,474)	(104,393)	(32,555)	58,022

<i>(in thousands of US\$ except share and per share data)</i>	For the Years Ended May 31,				
	2019	2020	2021	2022	2023
Net income/(loss) attributable to New Oriental Education & Technology Group Inc.'s shareholders	238,065	413,333	334,414	(1,187,721)	177,341
-Basic	0.15	0.26	0.20	(0.70)	0.11
-Diluted	0.15	0.26	0.20	(0.70)	0.10
Weighted average shares used in calculating basic net income/(loss) per common share ⁽³⁾	1,582,938,900	1,584,295,760	1,645,463,440	1,696,419,232	1,678,264,547
Weighted average shares used in calculating diluted net income/(loss) per common share ⁽³⁾	1,590,393,450	1,595,368,900	1,651,982,384	1,696,419,232	1,685,631,987

- (1) Share-based compensation expenses are included in our operating cost and expenses as follows:
- (2) Each ADS represents ten common shares. For the years ended May 31, 2019, 2020 and 2021, the number of shares used in calculating basic and diluted net income per common share have been retrospectively adjusted to reflect the ADS ratio change from one ADS representing one common share to one ADS representing ten common shares, which became effective on April 8, 2022.
- (3) For the years ended May 31, 2019 and 2020, the number of shares used in calculating basic and diluted net income per common share have been retrospectively adjusted to reflect the 1-for-10 share split that became effective on March 10, 2021.

<i>(in thousands of US\$)</i>	For the Years Ended May 31,				
	2019	2020	2021	2022	2023
Cost of revenues	134	2,224	6,698	(131)	2,749
Selling and marketing	1,205	4,227	6,922	(2,437)	5,750
General and administrative	69,997	55,606	55,260	135,536	81,289
Total	71,336	62,057	68,880	132,968	89,788

The following table presents our selected consolidated balance sheet data as of May 31, 2019, 2020, 2021, 2022 and 2023:

<i>(in thousands of US\$)</i>	As of May 31,				
	2019	2020	2021	2022	2023
Selected Consolidated Balance Sheet Data:					
Cash and cash equivalents	1,414,171	915,057	1,612,211	1,148,637	1,662,982
Total assets	4,646,559	6,556,885	10,151,053	6,034,666	6,392,458
Total current liabilities	2,006,224	2,479,364	3,471,445	1,710,114	2,250,978
Total liabilities	2,121,462	3,687,074	5,132,877	2,241,142	2,577,670
Total New Oriental Education & Technology Group Inc. shareholders' equity	2,360,686	2,733,295	4,913,275	3,705,506	3,604,348
Non-controlling interests	164,411	136,516	104,901	88,018	210,440
Total equity	2,525,097	2,869,811	5,018,176	3,793,524	3,814,788

Financial Information Related to the Consolidated Affiliated Entities

The following tables present the condensed consolidating schedule of financial position for the consolidated affiliated entities and other entities for the years and as of the dates presented.

Selected Condensed Consolidated Statements of Operations Information

	For the Year Ended May 31, 2023					
	New Oriental Education & Technology Group Inc.	Other Subsidiaries	Primary Beneficiaries of Consolidated Affiliated Entities	Consolidated Affiliated Entities	Eliminations	Consolidated Total
	US\$ (In thousands)					
Third-party net revenues	—	4,076	10,739	2,982,945	—	2,997,760
Inter-company revenues	—	1,041	233,683	1,951	(236,675)	—
Total operating cost and expenses	(93,715)	(19,660)	(277,970)	(2,724,475)	308,106	(2,807,714)
Income/(loss) from subsidiaries and VIEs	313,226	325,515	359,445	—	(998,186)	—
Other income, net	27,495	4,768	14,211	143,225	(71,214)	118,485
Income/(loss) before income taxes and loss from equity method investments	247,006	315,740	340,108	403,646	(997,969)	308,531
Provision for income taxes	—	(2,219)	(13,430)	(50,417)	—	(66,066)
(Loss)/income from equity method investments	(11,860)	(295)	(1,163)	6,216	—	(7,102)
Net income/(loss)	235,146	313,226	325,515	359,445	(997,969)	235,363

	For the Year Ended May 31, 2022					
	New Oriental Education & Technology Group Inc.	Other Subsidiaries	Primary Beneficiaries of Consolidated Affiliated Entities	Consolidated Affiliated Entities	Eliminations	Consolidated Total
	US\$ (In thousands)					
Third-party net revenues	—	7,265	4,641	3,093,340	—	3,105,246
Inter-company revenues	—	4,706	322,697	45,976	(373,379)	—
Total operating cost and expenses	(100,182)	(36,084)	(274,050)	(4,038,886)	361,443	(4,087,759)
(Loss)/income from subsidiaries and VIEs	(1,057,770)	(1,022,764)	(1,088,225)	—	3,168,759	—
Other income, net	25,180	(15,184)	14,621	(45,042)	(29,560)	(49,985)
(Loss)/income before income taxes and loss from equity method investments	(1,132,772)	(1,062,061)	(1,020,316)	(944,612)	3,127,263	(1,032,498)
Provision for income taxes	—	(195)	(8,405)	(127,712)	—	(136,312)
(Loss)/income from equity method investments	(14,154)	6,452	63	(43,827)	—	(51,466)
Net (loss)/income	(1,146,926)	(1,055,804)	(1,028,658)	(1,116,151)	3,127,263	(1,220,276)

For the Year Ended May 31, 2021						
	<u>New Oriental Education & Technology Group Inc.</u>	<u>Other Subsidiaries</u>	<u>Primary Beneficiaries of Consolidated Affiliated Entities</u>	<u>Consolidated Affiliated Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
				US\$ (In thousands)		
Third-party net revenues	—	6,424	(54)	4,270,169	—	4,276,539
Inter-company revenues	—	12,016	485,500	73,580	(571,096)	—
Total operating cost and expenses	(4,505)	(581,858)	(355,182)	(3,802,889)	585,161	(4,159,273)
Income/(loss) from subsidiaries and VIEs	222,554	789,220	663,099	—	(1,674,873)	—
Other income, net	1,432	(2,308)	22,099	185,758	(9,270)	197,711
Income/(loss) before income taxes and loss from equity method investments	219,481	223,494	815,462	726,618	(1,670,078)	314,977
Provision for income taxes	—	499	(25,583)	(58,504)	—	(83,588)
Income/(loss) from equity method investments	5,745	(1,439)	(659)	(5,015)	—	(1,368)
Net income/(loss)	225,226	222,554	789,220	663,099	(1,670,078)	230,021

Selected Condensed Consolidated Balance Sheets Information

As of May 31, 2023						
	<u>New Oriental Education & Technology Group Inc.</u>	<u>Other Subsidiaries</u>	<u>Primary Beneficiaries of Consolidated Affiliated Entities</u>	<u>Consolidated Affiliated Entities</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
				US\$ (in thousands)		
Assets						
Cash and cash equivalents	126,201	64,679	376,157	1,095,945	—	1,662,982
Amount due from Group companies	180,832	371,274	358,914	28,493	(939,513)	—
Other current assets	700,724	237,940	538,891	1,272,377	973	2,750,905
Total current assets	1,007,757	673,893	1,273,962	2,396,815	(938,540)	4,413,887

	As of May 31, 2023					
	New Oriental Education & Technology Group Inc.	Other Subsidiaries	Primary Beneficiaries of Consolidated Affiliated Entities	Consolidated Affiliated Entities US\$ (in thousands)	Eliminations	Consolidated Total
Investment in subsidiaries and VIEs	225,854	412,218	—	—	(638,072)	—
Property and equipment, net	—	1,561	72,085	286,120	(6)	359,760
Other non-current assets	117,001	96,016	473,015	932,779	—	1,618,811
Total non-current assets	342,855	509,795	545,100	1,218,899	(638,078)	1,978,571
Total assets	1,350,612	1,183,688	1,819,062	3,615,714	(1,576,618)	6,392,458
Liabilities						
Deferred revenue	—	3,826	25,627	1,308,378	(201)	1,337,630
Amount due to Group companies	67,914	482,613	104,842	292,157	(947,526)	—
Other current liabilities	1,770	4,182	74,866	832,530	—	913,348
Total current liabilities	69,684	490,621	205,335	2,433,065	(947,727)	2,250,978
Total liabilities	84,338	490,621	208,104	2,742,334	(947,727)	2,577,670
Total equity	1,266,274	693,067	1,610,958	873,380	(628,891)	3,814,788
Total liabilities and equity	1,350,612	1,183,688	1,819,062	3,615,714	(1,576,618)	6,392,458

	As of May 31, 2022					
	New Oriental Education & Technology Group Inc.	Other Subsidiaries	Primary Beneficiaries of Consolidated Affiliated Entities	Consolidated Affiliated Entities US\$ (in thousands)	Eliminations	Consolidated Total
Assets						
Cash and cash equivalents	150,234	144,946	534,465	318,992	—	1,148,637
Amount due from Group companies	410,833	642,183	1,045,013	46,756	(2,144,785)	—
Other current assets	738,284	104,578	891,789	1,590,671	—	3,325,322
Total current assets	1,299,351	891,707	2,471,267	1,956,419	(2,144,785)	4,473,959
Investment in subsidiaries and VIEs	225,854	413,218	—	—	(639,072)	—
Property and equipment, net	—	1,626	86,382	314,682	—	402,690
Other non-current assets	104,433	89,220	57,199	907,165	—	1,158,017
Total non-current assets	330,287	504,064	143,581	1,221,847	(639,072)	1,560,707
Total assets	1,629,638	1,395,771	2,614,848	3,178,266	(2,783,857)	6,034,666

As of May 31, 2022

	New Oriental Education & Technology Group Inc.	Other Subsidiaries	Primary Beneficiaries of Consolidated Affiliated Entities	Consolidated Affiliated Entities US\$ (in thousands)	Eliminations	Consolidated Total
Liabilities						
Deferred revenue	—	1,244	4,631	927,187	—	933,062
Amount due to Group companies	79,670	712,723	359,627	999,505	(2,151,525)	—
Other current liabilities	1,899	2,665	22,686	749,802	—	777,052
Total current liabilities	81,569	716,632	386,944	2,676,494	(2,151,525)	1,710,114
Total liabilities	146,963	716,824	390,495	3,138,385	(2,151,525)	2,241,142
Total equity	1,482,675	678,947	2,224,353	39,881	(632,332)	3,793,524
Total liabilities and equity	1,629,638	1,395,771	2,614,848	3,178,266	(2,783,857)	6,034,666

Selected Condensed Consolidated Cash Flows Information

	For the Year Ended May 31, 2023					
	New Oriental Education & Technology Group Inc.	Other Subsidiaries	Primary Beneficiaries of Consolidated Affiliated Entities	Consolidated Affiliated Entities US\$ (In thousands)	Eliminations	Consolidated Total
Net cash (used in)/provided by operating activities	(7,474)	(6,377)	332,336	652,523	—	971,008
Loan and fund pool to entities within the Group	(50,000)	—	—	—	50,000	—
Repayment of loan to entities within the Group	290,000	280,000	—	—	(570,000)	—
Investment in entities within the Group	—	—	—	—	—	—
Other investing activities	(16,052)	(137,595)	(178,675)	294,911	—	(37,411)
Net cash provided by/(used in) investing activities	223,948	142,405	(178,675)	294,911	(520,000)	(37,411)
Net proceeds from loan and fund pool from entities within the Group	—	50,000	—	—	(50,000)	—
Repayment of loan to entities within the Group	—	(290,000)	(280,000)	—	570,000	—
Proceeds from group capital contribution	—	—	—	—	—	—
Other financing activities	(240,392)	12,878	—	(19,353)	—	(246,867)
Net cash (used in)/provided by financing activities	(240,392)	(227,122)	(280,000)	(19,353)	520,000	(246,867)

	For the Year Ended May 31, 2022					
	New Oriental Education & Technology Group Inc.	Other Subsidiaries	Primary Beneficiaries of Consolidated Affiliated Entities	Consolidated Affiliated Entities	Eliminations	Consolidated Total
				US\$ (In thousands)		
Net cash provided by/(used in) operating activities	7,682	(3,470)	233,032	(1,517,697)	—	(1,280,453)
Loan and fund pool to entities within the Group	(330,364)	(330,364)	(155,917)	—	816,645	—
Repayment of loan to entities within the Group	282,132	282,132	466	—	(564,730)	—
Investment in entities within the Group	—	(44,269)	—	—	44,269	—
Other investing activities	28,247	(24,610)	(9,825)	1,174,720	—	1,168,532
Net cash (used in)/provided by investing activities	(19,985)	(117,111)	(165,276)	1,174,720	296,184	1,168,532
Net proceeds from loan and fund pool from entities within the Group	—	330,364	330,364	155,917	(816,645)	—
Repayment of loan to entities within the Group	—	(282,132)	(282,132)	(466)	564,730	—
Proceeds from group capital contribution	—	—	44,269	—	(44,269)	—
Other financing activities	(221,997)	—	(8,861)	—	—	(230,858)
Net cash (used in)/provided by financing activities	(221,997)	48,232	83,640	155,451	(296,184)	(230,858)

	For the Year Ended May 31, 2021					
	New Oriental Education & Technology Group Inc.	Other Subsidiaries	Primary Beneficiaries of Consolidated Affiliated Entities	Consolidated Affiliated Entities	Eliminations	Consolidated Total
				US\$ (In thousands)		
Net cash (used in)/provided by operating activities	(13,407)	(19,721)	116,518	1,046,695	—	1,130,085
Loan and fund pool to entities within the Group	(310,767)	(310,767)	—	—	621,534	—
Investment in entities within the Group	(219,659)	(216,764)	—	—	436,423	—
Other investing activities	(825,526)	(533,037)	(29,956)	(789,120)	—	(2,177,639)
Net cash (used in)/provided by investing activities	(1,355,952)	(1,060,568)	(29,956)	(789,120)	1,057,957	(2,177,639)
Net proceeds from loan and fund pool from entities within the Group	—	310,767	310,767	—	(621,534)	—
Proceeds from group capital contribution	—	219,659	216,764	—	(436,423)	—
Other financing activities	1,659,851	12,142	(1,251)	(16,658)	—	1,654,084
Net cash provided by/(used in) financing activities	1,659,851	542,568	526,280	(16,658)	(1,057,957)	1,654,084

Cessation of K-9 Academic AST Services

In compliance with regulatory policies promulgated in 2021, including the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education published in July 2021 by the General Office of the State Council and the General Office of Central Committee of the Communist Party of China, or the Alleviating Burden Opinion, we have ceased offering tutoring services related to academic subjects for students from kindergarten through grade nine (“K-9 Academic AST Services”) in China since the end of 2021. The cessation of K-9 Academic AST Services had a substantial adverse impact on our financial performance for the fiscal year ended May 31, 2022. The impact of cessation of K-9 Academic AST Services in China includes the following items in our consolidated financial statements:

Net Revenues

Our total net revenues decreased by 27.4% from US\$4,276.5 million for the fiscal year ended May 31, 2021 to US\$3,105.2 million for the fiscal year ended May 31, 2022, and further decreased by 3.5% to US\$2,997.8 million for the fiscal year ended May 31, 2023. The decreases were primarily due to cessation of K-9 Academic AST services since the end of 2021 to be in compliance with applicable regulations, rules and policies in China. Furthermore, for the fiscal years ended May 31, 2021 and 2022, the revenues from offering K-9 Academic AST Services accounted for a significant portion of our total net revenues for each fiscal year. We were not able to quantify such amounts as we did not maintain discrete financial information for our K-9 Academic AST services in the past.

Property and Equipment

US\$368.6 million impairment loss was recorded for certain property and equipment and the leasehold improvements of certain learning centers and offices in the fiscal year ended May 31, 2022, mostly due to the downsize of learning centers as result of regulatory changes and cessation of K-9 Academic AST Services in China.

Leases

Certain of our leases were terminated before the expiration of the lease term due to the downsized capacity relating to the cessation of K-9 Academic AST Services in China during the fiscal year ended May 31, 2022 and the relevant right-of-use assets, with a carrying amount totaling US\$781.3 million. The corresponding liability was derecognized upon the effectiveness of the early termination.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Summary of Risk Factors

Investing in our ADSs and/or common shares involves significant risks. You should carefully consider all of the information in this annual report before making an investment in our ADSs and/or common shares. All the operational risks associated with being based in and having operations in mainland China also apply to our operations in Hong Kong. With respect to the legal risks associated with being based in and having operations in China as discussed in relevant risk factors under “Risk Factors—Risks Related to Doing Business in China,” the laws, regulations and the discretion of China governmental authorities discussed in this annual report are expected to apply to PRC entities and businesses, rather than entities or businesses in Hong Kong which operate under a different set of laws from mainland China. The following list summarizes some, but not all, of these risks.

Risks Related to Our Business

- The cessation of the K-9 Academic AST Services in compliance with regulatory developments has materially and adversely affected, and may continue to materially and adversely affect, our business, financial condition, results of operations and prospect. Failure to effectively and efficiently manage changes of our existing business and new business may materially and adversely affect our ability to capitalize on new business opportunities. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—The cessation of the K-9 Academic AST Services in compliance with regulatory developments has materially and adversely affected, and may continue to materially and adversely affect, our business, financial condition, results of operations and prospect. Failure to effectively and efficiently manage changes of our existing business and new business may materially and adversely affect our ability to capitalize on new business opportunities” on page 22 for details.
- If we fail to successfully execute our business strategies, our business and prospects may be materially and adversely affected. See “Item 3.D. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to successfully execute our business strategies, our business and prospects may be materially and adversely affected” on page 23 for details.
- Significant risks exist in relation to the interpretation and implementation of or proposed changes to, the PRC laws, regulations and policies regarding the private education industry. In particular, our compliance with the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education and the implementation measures issued thereunder by the relevant PRC government authorities has had, and could have further, material adverse effect on us. See “Item 3. Key Information—Risk Factors—D. Risks Related to Our Business—Significant risks exist in relation to the interpretation and implementation of, or proposed changes to, the PRC laws, regulations and policies regarding the private education industry. In particular, our compliance with the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education and the implementation measures issued thereunder by the relevant PRC government authorities has had, and could have further, material adverse effect on us” on pages 23-24 for details.
- If we are not able 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. See “Item 3. Key Information—Risk Factors—D. Risks Related to Our Business—If we are not able 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” on page 25 for details.
- 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. See “Item 3. Key Information—D. Risk Factors—Risks Related to 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” on page 25 for details.

Risks Related to Our Corporate Structure

- We are a Cayman Islands holding company with no equity ownership in the VIEs and we conduct our operations in China primarily through (i) our PRC subsidiaries, (ii) the VIEs with which we have contractual arrangements, and (iii) the subsidiaries and/or schools of the VIEs. Investors of our ADSs and/or common shares thus are not purchasing equity interest in the VIEs in China but instead are purchasing equity interests in a holding company incorporated in the Cayman Islands. If the PRC government deems that the contractual arrangements with the VIEs do not comply with the PRC regulatory restrictions on foreign investment in 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. Our holding company, our PRC subsidiaries and the VIEs, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIEs and, consequently, significantly affect the financial performance of the VIEs and our company as a group. 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” on pages 40-43 for details.

- We rely on contractual arrangements for our operations in China, which is not as effective in providing operational control as direct ownership. See “Item 3. Key Information—D. Risk Factors— Risks Related to Our Corporate Structure—We rely on contractual arrangements for our operations in China, which is not as effective in providing operational control as direct ownership” on pages 43-44 for details.
- Our ability to enforce the equity pledge agreements between us and the shareholders of the variable interest entities may be subject to limitations based on PRC laws and regulations. See “Item 3. Key Information—D. Risk Factors— Risks Related to Our Corporate Structure—Our ability to enforce the equity pledge agreements between us and the shareholders of the variable interest entities may be subject to limitations based on PRC laws and regulations” on page 44 for details.
- 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. See “Item 3. Key Information—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” on page 44 for details.

Risks Related to Doing Business in China

- Our operations in China are governed by PRC laws and regulations. Certain laws and regulations are relatively new and can change quickly with little advance notice. In addition, the interpretations and enforcement of many laws, regulations and rules are subject to changes, which may limit the available legal protections. Furthermore, the PRC administrative and court authorities have discretion in interpreting and implementing or enforcing statutory rules and contractual terms, and it may be difficult to predict the outcome of administrative and court proceedings and the level of legal protection we may enjoy in China. These uncertainties may affect our judgment on the relevance of legal requirements and our decisions on the measures and actions to be taken to fully comply therewith and may affect our ability to enforce our contractual or tort rights. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Uncertainties with respect to the enforcement of laws, and changes in laws and regulations in China could adversely affect us” on page 49.
- We conduct our business primarily in China. Our operations in China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the operation of our business, and it may influence our operations at any time, which could result in a material adverse change in our operation and the value of our ADSs. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline. The PRC government may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of our securities. Any actions by the PRC government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or become worthless. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PRC government’s oversight and discretion over our business operations could result in a material adverse change in our operations and the value of our ADSs and/or common shares” on page 50.
- The approval of and filings with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether we will be able to obtain such approval or complete such filings or how long they might take. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The approval of and filings with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether we will be able to obtain such approval or complete such filings or how long they might take” on pages 53-54 for details.

- The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections” on page 60 for details
- Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment” on page 60 for details

Risks Related to Our ADSs and Common Shares

- We adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs and Common Shares—We adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange” on pages 61-62 for details.
- The trading prices of our ADSs and common shares have been and are likely to continue to be volatile, which could result in substantial losses to holders of our common shares and/or ADSs. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs and Common Shares—The trading prices of our ADSs and common shares have been and are likely to continue to be volatile, which could result in substantial losses to holders of our common shares and/or ADSs” on page 62 for details.
- If securities or industry analysts publish negative reports about our business, the price and trading volume of our common shares and/or ADSs securities could decline. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs and Common Shares—If securities or industry analysts publish negative reports about our business, the price and trading volume of our common shares and/or ADSs securities could decline” on page 63 for details.

Risks Related to Our Business

The cessation of the K-9 Academic AST Services in compliance with regulatory developments has materially and adversely affected, and may continue to materially and adversely affect, our business, financial condition, results of operations and prospect. Failure to effectively and efficiently manage changes of our existing business and new business may materially and adversely affect our ability to capitalize on new business opportunities.

In compliance with the Alleviating Burden Opinion and its implementation measures, we have ceased offering K-9 Academic AST Services in China since the end of 2021. Such cessation had a substantial adverse impact on our financial performance for the fiscal year ended May 31, 2022. In light of regulatory developments in China, in addition to the cessation of our K-9 Academic AST Services, we have made changes to our existing business, including closing of some of our schools and learning centers and implementing staff optimization plan, while executing on new business strategies. The total number of schools and learning centers was 744 and 748 as of May 31, 2022 and 2023, respectively, as compared to 1,669 as of May 31, 2021.

We have shifted, and will continue to, shift our focus towards educational products and services that are not related to K-9 Academic AST Services, such as test preparation courses and educational materials and distribution, and explore other business opportunities by leveraging our brand recognition and educational resources accumulated over our operating history. For example, our new business initiatives include non-academic tutoring, intelligent learning systems and devices, study tours and research camps, educational materials and digitalized smart study solutions, as well as exam preparation courses designed to help students with junior college diplomas to obtain bachelor’s degrees. We may continue to operate in different geographic locations in China, which has resulted, and will continue to result, in substantial demands on our management, faculty and operational, technological and other resources. Our continued nationwide operations 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. In addition, Koolearn.com, our online education platform, continues to expand its online educational offerings to adults and university students, and seeks business opportunities in new areas. In fiscal year 2022, East Buy (formerly known as Koolearn) established an e-commerce platform under the brand name East Buy (东方甄选) for the sale of agricultural and other products through livestreaming activities. East Buy has made notable progress in its sale of private label products and livestreaming e-commerce business in fiscal year 2023. We are also exploring business opportunities in culture and tourism market. To manage and support changes in our business and our future growth strategy, 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 enter into new areas. We cannot assure you that we will be able to effectively and efficiently manage our operations, recruit and retain qualified teachers and management personnel and integrate new businesses into our operations. Any failure to effectively and efficiently manage changes of our business 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 business strategies, our business and prospects may be materially and adversely affected.

Following the cessation of the K-9 Academic AST Services since the end of 2021, we have shifted our business focus to expand our remaining program, service and product offerings, update and expand the content of our programs, services and products in a cost-effective and timely manner, investing in new business initiatives, as well as maintain and continue to establish strategic relationships with complementary businesses. The expansion of our programs, services and products in terms of types of offerings and the launch of new business initiatives 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 or staff for our new programs or product and service offerings. 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 business strategies, our business and prospects may be materially and adversely affected.

Significant risks exist in relation to the interpretation and implementation of, or proposed changes to, the PRC laws, regulations and policies regarding the private education industry. In particular, our compliance with the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education and the implementation measures issued thereunder by the relevant PRC government authorities has had, and could have further, material adverse effect on us.

The PRC private education industry, especially the after-school tutoring sector, has experienced intense scrutiny and has been subject to significant regulatory changes recently. In particular, the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education jointly promulgated by the General Office of State Council and the General Office of Central Committee of the Communist Party of China on July 24, 2021, or the Alleviating Burden Opinion, sets out a series of operating requirements on after-school tutoring institutions, including, among other things, (i) local government authorities shall no longer approve any new after-school tutoring institutions providing tutoring services on academic subjects for students in compulsory education, or the Academic AST Institutions, and all the existing Academic AST Institutions shall be registered as non-profit, and local government authorities shall no longer approve any new after-school tutoring institutions providing tutoring services on academic subjects for pre-school-age children and students in grade ten to twelve; (ii) online Academic AST Institutions that have filed with the local education administration authorities will be subject to review and re-approval procedures by competent government authorities, and any failure to obtain such approval will result in the cancellation of its previous filing and ICP license; (iii) Academic AST Institutions are prohibited from raising funds by listing on stock markets or conducting any capitalization activities and listed companies are prohibited from investing in Academic AST Institutions through capital markets fund raising activities, or acquiring assets of Academic AST Institutions by paying cash or issuing securities; (iv) foreign capital is prohibited from controlling or participating in any Academic AST Institutions through mergers and acquisitions, entrusted operation, joining franchise or variable interest entities; (v) for non-academic tutoring, local authorities shall identify corresponding competent authorities for different tutoring categories, set forth standards and approve relevant non-academic tutoring institutions; and (vi) other compliance requirements for the operation of after-school tutoring institutions, including without limitation that after-school tutoring institutions shall not provide tutoring services during national holidays, weekends and winter and summer breaks, and requirements on risk management and control over the pre-collection of fees by after-school tutoring institutions. The Alleviating Burden Opinion further provides that administration and supervision over academic subjects tutoring institutions for students in grade ten to twelve shall be implemented by reference to the relevant provisions of the Alleviating Burden Opinion. Moreover, on February 8, 2022, the Chinese Ministry of Education, or the MOE issued its key tasks for 2022 on its website, which specifies that administration over academic subjects tutoring for students in grade ten to twelve shall be strictly implemented by reference to the relevant provisions regarding administration over academic subjects tutoring for students in compulsory education. It remains uncertain as to how and to what extent the administration over academic subjects tutoring institutions for students in grade ten to twelve will be implemented by reference of the Alleviating Burden Opinion. Therefore, we cannot assure you that we would not be required to take further actions regarding our academic tutoring services for students in grade ten to twelve to comply with the Alleviating Burden Opinion and its implementation measures, and there can be no assurance that we could fully comply with any further or detailed requirements regarding our academic tutoring services for students in grade ten to twelve in a timely manner, or at all. Any failure to comply with such requirements could subject us to fines, other penalties, refund to students and negative publicity, and in the worst case scenario, we may have to cease our academic tutoring services for students in grade ten to twelve, which could materially and adversely affect our business operation, financial condition and results of operations. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Private Education—Regulations on After-School Tutoring” for more details.

To implement the Alleviating Burden Opinion, on September 7, 2021, the MOE published on its official website that the MOE, together with two other government authorities, issued a circular requiring all Academic AST Institutions to complete registration as non-profit by the end of 2021, and all Academic AST Institutions shall, before completing such registration, suspend enrollment of students and charging fees. Moreover, in 2022, the MOE and other authorities further issued notices and opinions on regulating non-academic after school training institutions. In addition, in August 2023, the MOE issued the Interim Measures for Administrative Penalties on Off-campus Tutoring, which will become effective on October 15, 2023 and set out the general requirements for administrative penalties for illegal off-campus tutoring operated by any natural person, legal person or other organization that is offered to preschool children over 3 years of age, and primary and secondary school students. As these regulations and rules on implementing the Alleviating Burden Opinion are relatively new, their interpretation and implementation are subject to changes, we cannot assure you that we would not be required to take further actions regarding our tutoring services to comply with these regulations and rules, and there can be no assurance that we could fully comply with any further or detailed requirements regarding our tutoring services in a timely manner, or at all. Any failure to comply with such requirements could subject us to fines, other penalties, refund to students and negative publicity, and in the worst case scenario, we may have to cease our relevant tutoring services, which could materially and adversely affect our business operation, financial condition and results of operations. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Private Education—Regulations on After-School Tutoring” for more details.

Our business, financial condition, results of operations and prospect have been, and may continue to be, materially and adversely affected by the actions we have taken to date to be in compliance with the Alleviating Burden Opinion and its implementation measures. We have been closely monitoring the evolving regulatory environment and are making efforts to seek guidance from and cooperate with the government authorities to comply with the Alleviating Burden Opinion and its implementation measures. Among other things, we have ceased K-9 Academic AST Services in all of our schools and learning centers in China since the end of 2021, including closing of some of our schools and learning centers and implementing employee layoffs where necessary to maintain our continued operations. We have incurred considerable costs and expenses for the fiscal year ended May 31, 2022 resulting from termination of leases, dismissal of employees and other actions we have taken in light of the regulatory developments. Due to the complex and evolving regulatory environment, we cannot assure you that our operations would be in full compliance with applicable laws, regulations, policies and requirements imposed by local governmental authorities, including the Alleviating Burden Opinion and its implementation measures, in a timely manner, or at all. We may become subject to fines or other penalties or be required to terminate certain operations, and negative publicity, investigations by governmental authorities, refund to students, revocation of certain permits and negative influence on our ongoing permit applications, each occurrence of which may materially and adversely affect our business, financial condition and results of operations.

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. For example, although we believe the provision of digital educational resources through our intelligent learning systems and devices shall not be considered as after-school tutoring activities, and we have not received any notice from the competent government authorities indicating that such activities are deemed as after-school tutoring activities, we cannot assure you that the competent government authorities will not take a contrary view to ours. In the event that the provision of digital academic educational resources through our intelligent learning systems and devices is deemed as after-school tutoring activities, the academic educational resources provided by our intelligent learning systems and devices to K-9 students shall comply with all regulations related to academic after-school tutoring, including, among others, the Alleviating Burden Opinion. Our PRC operating entities of the intelligent learning systems and devices may then be deemed as Academic AST Institutions, and these entities will be prohibited from being controlled by us as the Alleviating Burden Opinion prohibits foreign ownership in Academic AST Institutions, including through contractual arrangements. 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 and other regulatory and disciplinary sanctions, or even orders to relinquish our contractual arrangements, all of which may materially and adversely affect our business and results of operations. Moreover, we cannot assure you that there will not be any new rules or regulations in China on the business we currently operate, or such new rules and regulations will not subject our business operations to further adjustments and in the event of such changes, our business operations may be adversely impacted.

If we are not able 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 education 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 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 regulatory developments, changes in market trends and student demands, maintain 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 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.

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. Our future business strategy to develop new program, service and product offerings and extend our reach to new areas may make it more difficult to maintain quality and consistency.

We have mainly relied on word-of-mouth referrals to attract prospective students. We also use various marketing and promotion activities, such as 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.

We depend on our dedicated and capable faculty and staff, and if we are not able to maintain consistent teaching quality throughout our school network, or service quality throughout our brand, business and operating results may be materially and adversely affected.

Our teachers and staff 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 and staff who have strong professional capabilities. We also need to hire teachers and staff who are capable of delivering innovative and inspirational instruction or premium services. We must also provide continuous training to our teachers and staff so that they can stay up to date with changes in student demands, admissions and assessment tests, admissions standards, and other key trends necessary to effectively teach their respective courses or provide their services. We may not be able to hire, train and retain enough qualified teachers or staff to keep pace with our anticipated development while maintaining consistent teaching quality across our education services or service quality across our other services. In addition, PRC laws and regulations require our teachers and staff to have requisite licenses if they teach, among others, academic subject such as Chinese, mathematics, English, physics, chemistry, biography, history, geography, and teachers are also required to have relevant qualifications if they teach non-academic subjects. However, we cannot assure you that our teachers can all apply for and obtain the teaching licenses and relevant qualifications in a timely manner or at all due to various reasons, such as the time gap between the recruitment and the newly-recruited teachers taking the exam and ultimately obtaining the teacher license or relevant qualifications, and the cancellation and delay of teacher license examinations and other qualifications examinations in recent years due to COVID-19. If some of our teachers, due to various reasons, are unable to apply for and obtain the requisite teaching licenses on a timely basis, or at all, we may be required to rectify such non-compliance and may not be able to continue to retain such teachers. Shortages of qualified teachers and/or staff or decreases in the quality of our instruction or service, whether actual or perceived, in one or more of our markets may have a material and adverse effect on our business.

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

Our net revenues decreased from US\$4,276.5 million in the fiscal year ended May 31, 2021 to \$3,105.2 million in the fiscal year ended May 31, 2022 and further to US\$2,997.8 million in the fiscal year ended May 31, 2023. Any evaluation of our business and our prospects must be considered in light of the risks related to the recent change of regulatory policies on after-school tutoring services market. In addition, our past results may not be indicative of future performance because of the cessation of K9 Academic AST Services in the end of 2021 as well as any new businesses developed or acquired by us. Substantial uncertainties exist with respect to the profitability and cash generating capability of such new businesses. In addition to the fluctuations described above, our revenues, expenses and operating results may vary from quarter to quarter and from year to year in response to a variety of other factors beyond our control, including:

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

Due to these and other factors, we believe that period-to-period 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 common shares and/or ADSs. In addition, our past results may not be indicative of future performance because of new businesses developed or acquired by us.

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 and other education content providers in distributing their education material in China. With access to such high-quality education content, we further develop localized products that best serve the needs for millions of students and families in the China market. There can be no assurance that we will be able to continue to obtain licenses on commercially reasonable terms or at all or that rights granted under any licenses will be valid and enforceable.

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

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

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

We face significant competition in each industry 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 highly fragmented and competitive. 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 test preparation services in China.

Our student enrollments may decrease due to intense competition. Some of our competitors may have more resources and experiences than we do. These competitors may be able to devote greater resources than we can to the development, promotion and sale of their programs, services and products and respond more quickly than we can to changes in student needs, testing materials, admissions standards, or new technologies. In addition, we face competition from many different smaller sized organizations that focus on some of our targeted markets, and they may be able to respond more promptly to changes in student preferences in these markets. We also face competition from online educational service providers that offer online test preparation. 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 also face intense competition from other livestreaming e-commerce players. Some of our competitors may have longer operating histories and greater financial, technical and marketing resources than we do or have an advantage in attracting and retaining consumers and business partners. In addition, our competitors may have larger consumer bases or more established brand names than we do and therefore would be able to more effectively leverage their consumer bases and brand names to conduct livestreaming activities and operate e-commerce business.

We cannot assure you that we will be able to compete successfully and grow our business. 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.

The worldwide outbreak of the COVID-19 pandemic has resulted in significant disruptions in the global economy. To contain the spread of COVID-19, the Chinese government has taken certain emergency measures, including implementation of travel bans, blockade of transportation and closure of factories, facilities and businesses, and encouragement of remote working arrangements and cancellation of public activities. Since early 2022, there has been a recurrence of COVID-19 outbreaks in certain provinces of China due to the Delta and Omicron variants. As a result, the Chinese local authorities reinstated similar emergency measures to contain further spread of COVID-19.

The COVID-19 pandemic affected many aspects of our business since 2020. In the first half of 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 COVID-19 outbreak on our services and operation. We gradually resumed our offline operations from June 2020. However, we again were required to close our learning centers in certain regions from time to time where new cases of COVID-19 were discovered between the end of 2020 and 2022. China began to modify its zero-COVID policy at the end of 2022, and most of the travel restrictions and quarantine requirements were lifted in December. There were surges of cases in many cities during this time which caused disruption to our operations, and there remains uncertainty as to the future impact of the virus, especially in light of this change in policy. To the extent that potential future waves of COVID-19 disrupt school or learning center operations and semester schedules in China, we may face operational challenges with respect to continuing to offer our offline courses and services to our students and teachers. In addition, 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, the extent and severity of new waves of outbreak in these countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment and the effectiveness of such vaccine and other medical treatment, remain uncertain. As a result, Chinese students may be discouraged from pursuing study-abroad in the near future, if not longer, which in turn may negatively affect the demand for our overseas test preparation courses and overseas study consulting services. We cannot assure you that the COVID-19 pandemic can be eliminated completely. Moreover, more waves or a similar outbreak may occur, which could materially and adversely affect our business, financial condition, and results of operations.

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 cancelations 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 cancelations 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.

We had experienced and may experience a decrease in our margins.

Many factors may cause our gross and net margins to decline. The regulatory developments regarding Academic AST Institutions' after-school tutoring business had caused a decline in our gross and net margin. Our operating margin turned positive for the fiscal year ended May 31, 2023. However, there is no assurance that we will be able to maintain or improve our operating margin in the future. In addition, new businesses may not have the same margins as we had in the past, and 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. It is possible that our margins could 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. 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 common shares and ADSs.

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenues and results of operations, primarily due to seasonal changes in student enrollments in educational business and some other services. 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. 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 COVID-19 pandemic 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 common shares and/or ADSs. As our revenues grow, these seasonal fluctuations may become more pronounced.

Our reputation, results of operations, financial condition and the trading price of our ADSs and/or common shares 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 and common shares 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. On July 24, 2021, China's official state media, including Xinhua News Agency and China Central Television, announced the Alleviating Burden Opinion, issued by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council. The Alleviating Burden Opinion contains high-level directives about requirements and restrictions related to after-school tutoring services. The trading price of our ADSs and common shares declined sharply before and after the Alleviating Burden Opinion was issued. In addition, certain of our directors are subject to 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 and common shares.

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, or subject us to rectification measures.

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. 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. On August 25, 2021, the General Office of MOE issued the Administrative Measures for After-School Tutoring Materials for Primary and Secondary School Students (for Trial Implementation). See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Private Education—Regulations on After-School Tutoring."

We adapt our tutoring programs and materials to new curriculum and tutoring material requirements promulgated from time to time. However, there can be no assurance that we are able to or we will comply with all such requirements, and any inability to comply with any of the requirements in a timely manner, or at all, may subject us to rectification measures, suspension of using tutoring materials or even revocation of our private school operation permit, which may materially and adversely affect our business, financial condition and results of operations. Furthermore, 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 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 had 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. 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 might not be able to fulfil our obligation in respect of deferred revenue, which might have impact on our cash/liquidity position.

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

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

We carry goodwill and other intangible assets on our consolidated balance sheet. As a result, we may be required to recognize impairment losses with regard to intangible assets and goodwill. In accordance with ASC 350, Goodwill and Other Intangible Assets, the recorded goodwill amounts are not amortized, but rather are tested for impairment annually or more frequently if there are indicators of impairment present. Any impairment losses for intangible assets and goodwill will adversely affect our results of operations and financial condition. We recorded US\$28.9 million, nil and nil goodwill impairment losses for the years ended May 31, 2021, 2022 and 2023, respectively and recorded US\$2.9 million, nil and nil intangible assets impairment losses for the years ended May 31, 2021, 2022 and 2023, respectively.

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

Fluctuations in the fair value of long-term investments and short-term investments, due to market conditions or other reasons, may have an adverse impact on our results of operations. For example, we recorded a loss from fair value change of long-term investments in the fiscal year ended May 31, 2023 of US\$0.9 million.

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

Our 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. For instance, in fiscal year 2022, East Buy (formerly known as Koolearn) established an e-commerce platform under the brand name East Buy (东方甄选) for the sale of agricultural and other products through livestreaming activities. East Buy has made notable progress in its sale of private label products and livestreaming e-commerce business in fiscal year 2023. We cannot assure you that the livestreaming events through East Buy will continue to be popular and generate increasing net income as we expect. 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 and influential livestreaming hosts in our livestreaming e-commerce business 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.

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, 2023 from our operations in Beijing, Hangzhou, Guangzhou and Nanjing, 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 COVID-19 resurgence caused by the Omicron variants in 2022 adversely affected our operations in certain cities in China. See "Risks Related to Our Business—Our business, financial condition and results of operations have been and are likely to continue to be materially and adversely affected by the outbreak of COVID-19."

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

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

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

We are subject to the reporting obligations under the U.S. securities laws. The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of the company's internal control over financial reporting. Although our management concluded, and our independent registered public accounting firm reported, that we maintained effective internal control over financial reporting as of May 31, 2023, 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 common shares and/or ADSs. Furthermore, we may need to incur additional costs and use additional management and other resources as our business and operations further expand or in an effort to remediate any significant control deficiencies that may be identified in the future.

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.

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 privacy, data protection and cybersecurity may subject us to penalties, damage our reputation and brand, and may materially and adversely affect our business, as we routinely collect, store and use data during our business.

We routinely collect, store and use data during our operations. We are subject to PRC laws and regulations governing the collecting, storing, sharing, using, processing, disclosure and protection of personal information and other data on the Internet and mobile platforms as well as privacy protection and cybersecurity.

In June 2021, the Standing Committee of the NPC promulgated the PRC Data Security Law, which took effect in September 2021. The PRC Data Security Law, among other things, provides for security review procedure for data-related activities that may affect national security. On December 28, 2021, the CAC, together with other authorities, jointly promulgated the Cybersecurity Review Measures, which became effective on February 15, 2022 and replaced its predecessor regulation. Pursuant to the Cybersecurity Review Measures, critical information infrastructure operators that procure internet products and services and network platform operators engaging in data processing activities must be subject to the cybersecurity review if their activities affect or may affect national security. The Cybersecurity Review Measures further stipulates that network platform operators that hold personal information of over one million users shall apply with the Cybersecurity Review Office for a cybersecurity review before any public offering at a foreign stock exchange. The relevant government authorities may initiate the cybersecurity review against the relevant operators if the authorities believe that the network products or services or data processing activities of such operators affect or may affect national security. Pursuant to the Regulations on the Security Protection of Critical Information Infrastructure promulgated by the State Council on July 30, 2021, which became effective on September 1, 2021, critical information infrastructure shall mean any important network facilities or information systems of the important industry or field such as public communication and information service, energy, communications, water conservation, finance, public services, e-government affairs and national defense science, which may endanger national security, people's livelihood and public interest in case of damage, function loss or data leakage. In addition, relevant administration departments of each critical industry and sector, or Protection Departments, shall be responsible to formulate eligibility criteria and determine the critical information infrastructure operator in the respective industry or sector. The operators shall be informed about the final determination as to whether they are categorized as critical information infrastructure operators. As of the date of this annual report, no detailed rules or implementation has been issue by any Protection Departments and we have not been informed as a critical information infrastructure operator by any governmental authorities. Furthermore, the exact scope of "critical information infrastructure operators" under the current regulatory regime remains unclear, and the PRC government authorities may have wide discretion within their scope of authority in the interpretation and enforcement of the applicable laws. Therefore, it is uncertain whether we would be deemed to be a critical information infrastructure operator under PRC law. If we are deemed to be a critical information infrastructure operator under the PRC cybersecurity laws and regulations, we may be subject to obligations in addition to what we have fulfilled under the PRC cybersecurity laws and regulations. In November 2021, the CAC released the Administrative Regulations on Internet Data Security (Draft for Comments), or the Draft Data Security Regulations, which provides that data processors refer to individuals or organizations that, during their data processing activities such as data collection, storage, utilization, transmission, publication and deletion, have autonomy over the purpose and the manner of data processing. In accordance with the Draft Data Security Regulations, data processors shall apply for a cybersecurity review for certain activities, including, among other things, (i) the listing abroad of data processors that process the personal information of more than one million individuals and (ii) any data processing activity that affects or may affect national security. However, there have been no clarifications from the relevant authorities as of the date of this annual report as to the standards for determining whether an activity is one that "affects or may affect national security." In addition, the Draft Data Security Regulations requires that data processors that process "important data" or are listed overseas must conduct an annual data security assessment by itself or commission a data security service provider to do so, and submit the assessment report of the preceding year to the municipal cybersecurity department by the end of January each year. As of the date of this annual report, the Draft Data Security Regulations was released for public comment only, and their respective provisions and anticipated adoption or effective date may be subject to change with substantial uncertainty. On September 14, 2022, the CAC published the Decision of Amending PRC Cybersecurity Law (Draft for Comments), or the Draft Amendment to PRC Cybersecurity Law, which, among other things, aggravated legal liabilities for violations of cybersecurity obligations and critical information infrastructure operators' obligations. As of the date of this annual report, the Draft Amendment to PRC Cybersecurity Law was released for public comment only, and its respective provisions and anticipated adoption or effective date may be subject to change with substantial uncertainty. As advised by our PRC legal counsel, Tian Yuan Law Firm, as of the date of this annual report, we, our PRC subsidiaries, and the VIEs, are not required to go through a cybersecurity review by CAC for our previous issuance of securities to foreign investors.

On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law, which took effect on November 1, 2021. The Personal Information Protection Law aims at protecting the personal information rights and interests, regulating the processing of personal information, ensuring the orderly and free flow of personal information in accordance with the law, and promoting the reasonable use of personal information. According to the Personal Information Protection Law, personal information includes all kinds of identified or identifiable information related to natural persons recorded by electronic or other means, but excludes de-identified information. The Personal Information Protection Law also specified the rules for handling sensitive personal information, which includes biometrics, religious beliefs, specific identities, medical health, financial accounts, trails and locations, and personal information of teenagers under fourteen years old and other personal information, which, upon leakage or illegal usage, may easily infringe the personal dignity or harm of safety of livelihood and property. Personal information handlers shall bear responsibility for their personal information handling activities, and adopt necessary measures to safeguard the security of the personal information they handle. Otherwise, the personal information handlers will be ordered for rectification or suspension or termination of provision of services, confiscation of illegal income, subject to fines or other penalties.

On July 7, 2022, the CAC issued the Measures on Security Assessment of the Cross-border Transfer of Data, effective from September 1, 2022. The measures provide that four types of cross-border transfers of critical data or personal data generated from or collected in the PRC should be subject to a security assessment, which include: (i) a data processor to transfer important data overseas; (ii) either a critical information infrastructure operator, or a data processor processing personal information of more than 1 million individuals, transfers personal information overseas; (iii) a data processor who has, since January 1 of the previous year, transferred personal information of more than 100,000 individuals overseas cumulatively, or transferred sensitive personal information of more than 10,000 individuals overseas cumulatively; or (iv) other circumstances under which security assessment of data cross-border transfer is required as prescribed by the national cyberspace administration. We have applied for a security assessment by the CAC regarding the cross-border transfer of certain data in our business operations in accordance with the Measures on Security Assessment of the Cross-border Transfer of Data. However, since these measures are relatively new, the interpretation and implementation of these measures in practice are subject to changes, including the assessment result by the CAC.

We are constantly in the process of evaluating the potential impact of the laws, regulations and policies relating to cybersecurity, privacy, data protection and information security on our current business practices. All these laws and regulations may result in additional expenses and obligations to us and subject us to negative publicity, which could harm our reputation and negatively affect the trading price of the ADSs and/or common shares. Furthermore, based on the facts that (i) the Draft Data Security Regulations and Draft Amendment to PRC Cybersecurity Law have not been formally adopted, and the implementation and interpretation of both are subject to changes, (ii) we have not been involved in any investigations on cybersecurity review initiated by the CAC, nor have we received any inquiry, notice, warning, or sanctions from any competent PRC regulatory authorities related to cybersecurity, data security and personal data protection, we believe, as of the date of this annual report, to the best of our knowledge, our business operations are compliant with the currently effective PRC laws relating to cybersecurity, data security, and personal data and privacy laws in all material respects, and based on the advice of our PRC legal counsel, Tian Yuan Law Firm, except as otherwise disclosed in “—Failure to comply with governmental regulation and other legal obligations concerning privacy, data protection and cybersecurity may subject us to penalties, damage our reputation and brand, and may materially and adversely affect our business, as we routinely collect, store and use data during our business”, our business operations are compliant with the permission and approval requirements of the CAC in all material respects. We have taken and will continue to take reasonable measures to comply with such laws and regulations. The scope of these laws and regulations is evolving and further detailed implementation rules and interpretations may be promulgated. We expect the regulations over cybersecurity, data protection, personal information protection and privacy in the PRC to become increasingly more stringent. We cannot assure you that we can adapt our operations to the requirements promptly. We also cannot assure you that our employees would not violate any PRC laws and regulations regarding the protection of personal information and other data and cybersecurity. If we or any of our employees are not able to comply with the cybersecurity, network data security and personal information protection requirements in a timely manner, or at all, we may be subject to government enforcement actions and investigations, fines, penalties, suspension of our non-compliant operations, or removal of our app from the relevant application stores, among other sanctions, or litigation against us by consumer advocacy groups or others, criminal allegations or negative publicity, which could materially and adversely affect our business and results of operations, significantly limit or completely hinder our ability to continue to offer securities to investors, or cause the value of such securities to significantly decline. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Related to Privacy, Data Protection and Cybersecurity.”

Our advertising and promotional content may subject us to penalties and other administrative actions.

Under PRC advertising, pricing, protection of rights and interests of consumers and anti-unfair competition laws and regulations, we are obligated to monitor our advertising and promotional content to ensure that such content is true and accurate and in full compliance with applicable laws and regulations. For example, education or training advertisement are prohibited from containing content such as guarantee of passing an examination or the effect of education or training, recommendation and/or endorsement by scientific research institutes, academic institutions, educational organizations, industry associations, professionals or beneficiaries using their name or image. Further, in accordance with recent regulatory requirements, no advertisements in connection with after-school tutoring services shall be published or broadcasted on the network platforms and billboards displayed on the mainstream media, new media, public space and residential areas. In addition, advertisements shall accurately describe the product information, including its function, composition, price, use, origin, quality and other information, and shall not deceive or mislead customers. PRC advertising laws and regulations also impose prohibitions and restrictions on advertisements. For instance, superlative wording, such as “the best,” “the most” are prohibited from use in advertisements. Violation of these laws and regulations may subject us to penalties, including fines, confiscation of our advertising income, orders to cease dissemination of the advertisements and orders to publish an announcement correcting the misleading information. In circumstances involving serious violations by us, PRC governmental authorities may force us to terminate our advertising operations or revoke our licenses. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Advertising and Promotion.”

While we have made significant efforts to ensure that our advertisements and promotions are in full compliance with applicable PRC laws and regulations, we cannot assure you that all the content contained in such advertisements and promoting materials is in compliance with relevant laws, regulations and regulatory requirements, especially given the tightened regulation by the government authorities in this regard. Our failure to comply with the existing and future laws, regulations and regulatory requirements may subject us to fines, penalties, rectifications and other regulatory measures.

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

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

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

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

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

We will have to defend against a putative shareholder class action lawsuit described in “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal and Administrative Proceedings,” including any appeals of such lawsuit 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 future developments, including our new business initiatives and 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 business developments, 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 develop and grow new businesses, 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, 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 properties we use, and the early termination of our lease agreements under applicable PRC laws and regulations. For example, in the second and third quarter for the fiscal year ended May 31, 2022, we incurred considerable cost from the termination of our leasing agreements in relation to the closure of our learning centers due to the cessation of our K-9 Academic AST Services.

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

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

According to the PRC fire safety laws and regulations, construction and renovation of buildings are subject to fire control approvals or fire control filings. A portion of the properties we use do not fully comply with the fire control approval or fire control filing requirements primarily because we have a colossal network of schools and subsidiaries and different local authorities may have different practices in enforcing the regulatory requirements. We also cannot assure you that the properties we lease in the future would fully comply with the relevant fire control laws and regulations. If our use of the properties is challenged by relevant government authorities for lack of fire control procedures, we may be subject to fines and may need to relocate our operations to other locations, which would incur additional expenses. If we fail to find suitable replacement sites in a timely manner or on terms acceptable to us, our business and results of operations could be materially and adversely affected. As of the date of this annual report, we were not asked to relocate by any competent authority for lack of fire control procedures. To prevent the reoccurrence of such non-compliances, we have formulated management measures on property leasing which require our schools to investigate the fire control procedure status of a property and evaluate its fire control risk before leasing it, and complete the subsequent fire control procedures if required. For existing leased properties lacking fire control procedures, we also encourage our schools to voluntarily relocate when condition permits to reduce our compliant risk.

Any failure to comply with laws and regulations regarding food safety, product quality, online sales and online livestreaming could subject us to fines, penalties, other administrative measures or liability claims and may harm our reputation.

As East Buy sells food and other products under the brand name East Buy (东方甄选), food safety and product quality are critical to East Buy's reputation and business success. The PRC Food Safety Law and PRC Product Quality Law along with related regulations provide for a series of obligations and restrictions on food and other product distributors. Although East Buy implements quality control standards and measures throughout its entire operating processes, there is no assurance that East Buy's quality control systems will prove to be effective at all times, or that it can identify any defects in our quality control systems in a timely manner. East Buy also conducts livestreaming events on Douyin and its own App and sells product online, and therefore needs to comply with online livestreaming and online sales related regulations. For instance, according to the Online Livestreaming Service Administrative Measures, it is prohibited to publish information that endanger national security or infringe third-party rights. In addition, the Trial Administrative Measures for Online Livestreaming Sales and Marketing issued on April 23, 2021 and effective from May 25, 2021 stipulate that, among others, online livestreaming channel operators have the obligation to ensure the information provided are genuine and complies with laws, and such online livestreaming channel operators shall also check and record information regarding the products and suppliers. Furthermore, the Online Trading Supervision and Management Measures requires the online trading operators who collect and use consumers' personal information should announce their policies on collection and use of such information and should not collect and use such information in breach of laws or regulations or any agreement between the parties. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Food Safety," "—Regulations Relating to Product Quality," and "—Regulations Relating to Online Livestreaming and Online Sales" for more details. We cannot assure you that East Buy fully complies with the laws and regulations in the food safety and product quality regime and the online sales and online livestreaming industry at a timely manner, or at all. Failure to comply with these laws and regulations, or maintain the safety and quality of the products East Buy distributes may subject it to fines, penalties or other administrative measures, or liability claims or damage of East Buy (东方甄选) brand and reputation.

Any deterioration in our relationship with certain social media platforms may adversely affect our prospects and business operations of East Buy.

East Buy has benefited from our collaborations with social media platforms, in particular, Douyin, and we expect to continue to be reliant on them for the foreseeable future. East Buy's content capability, branding, innovative capacity and product supply chain capability have attracted a large number of high-quality customers for the private label products and livestreaming e-commerce ecosystem. Leveraging our collaboration with Douyin, East Buy has also benefited from the comprehensive support offered by Douyin. The GMV generated from Douyin represented a majority of East Buy's total GMV for the fiscal year ended May 31, 2023. We cannot assure you that we will continue to maintain our cooperative relationships with Douyin or other social media platforms and their respective affiliates in the future. We may not be able to successfully extend or renew our business cooperation with social media platforms on commercially reasonable terms or at all and may therefore be prohibited or restricted to conduct relevant business. This could materially disrupt our operations of East Buy and result in significant alternative expenses, which could adversely affect our reputation, business, financial condition and results of operations.

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 restrict and impose conditions on foreign direct investment in companies involved in the provision of educational and value-added telecommunication services. As a result, we conduct substantially all of our business in China through contractual arrangements between our wholly-owned subsidiaries in China, and the VIEs and their shareholders

We are a Cayman Islands exempted company with no equity ownership in the VIEs. We conduct substantially all of our 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. We are therefore considered the primary beneficiary of these entities, whose financial results are consolidated in New Oriental Education & Technology Group Co., Inc.'s consolidated financial statements under the U.S. GAAP for accounting purposes. 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 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%. Moreover, foreign ownership in entities providing production and operation of radio and television programs services is prohibited under the current PRC laws and regulations. To ensure compliance with the PRC laws and regulations, our online education business and online livestreaming business are operated by our majority-owned subsidiary, East Buy Holding Limited, or East Buy, through a series of contractual arrangements with Beijing New Oriental Xuncheng Network Technology Co., Ltd., or Beijing Xuncheng, and its subsidiaries and then shareholders. These contractual arrangements enable East Buy 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 East Buy'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. We are therefore considered the primary beneficiary of these entities, whose financial results are consolidated in New Oriental Education & Technology Group Co., Inc.'s consolidated financial statements under the U.S. GAAP for accounting purposes. 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." Investors in our common shares or the ADSs thus are not purchasing equity interest in the variable interest entities in China but instead are purchasing equity interest in a Cayman Islands holding company. If the PRC government deems that our contractual arrangements with the variable interest entities do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations and our shares may decline in value or if we are unable to assert our contractual control rights over the assets of our PRC subsidiaries that conduct all or substantially all of our operations. The PRC regulatory authorities could disallow the variable interest entity structure, which would likely result in a material adverse change in our operations, and our ADSs may decline significantly in value or become worthless. Our holding company in the Cayman Islands, the variable interest entities, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the variable interest entities and, consequently, significantly affect the financial performance of the variable interest entities and our company as a group.

On July 24, 2021, the General Office of State Council and the General Office of Central Committee of the Communist Party of China jointly promulgated the Alleviating Burden Opinion, which provides, among others, that (i) Academic AST Institutions are prohibited from raising funds by listing on stock markets or conducting any capitalization activities; (ii) foreign capital is prohibited from controlling or participating in any Academic AST Institutions through mergers and acquisitions, entrusted operation, joining franchise or variable interest entities; (iii) online tutoring for preschool-age children is prohibited, and offline academic subjects (including foreign language) tutoring services for preschool-age children is also strictly prohibited. The Alleviating Burden Opinion provides that any violation of the foregoing shall be rectified. The Alleviating Burden Opinion further states that the administration and supervision over academic subjects tutoring institutions for students on grade ten to twelve shall be implemented by reference to the relevant provisions of the Alleviating Burden Opinion. It remains uncertain as to how and to what extent the administration over academic subjects tutoring institutions for students on grade ten to twelve will be implemented by reference of the Alleviating Burden Opinion.

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

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

The Amended Implementation Rules, effective from September 1, 2021, also provide that social organizations and individuals are prohibited from controlling a non-profit private school that provide pre-school education through mergers and acquisitions or control agreements. It is unclear whether the above provisions have any retrospective effect for control agreements over non-profit pre-school education schools existing before September 1, 2021. In the event that competent governmental authorities make any retrospective interpretation of the aforesaid provisions in the future, we will need to rescind the contractual arrangements with existing non-profit pre-school education schools. As of the date of this annual report, no government authorities have informed us that the above provisions are retrospective and we have not been requested by competent government authorities to unwind the contractual arrangements over our existing non-profit pre-school education schools.

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.

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 any investment in for-profit kindergartens using funds from the capital market or acquire any for-profit kindergartens assets with stock or cash consideration in order to comply with the Preschool Opinions. The contribution of kindergartens have been immaterial to our business, we derived less than 1% of our total net revenues from our kindergartens for each of the fiscal years ended May 31, 2021, 2022 and 2023. Based on the foregoing, our PRC legal counsel is of the view that the restrictions of the Preschool Opinions on the investment in or acquisition of for-profit kindergartens would not materially and negatively impact our business and operations.

We have been advised by our PRC legal counsel, however, that the interpretation and application of current and future PRC laws and regulations are subject to changes. 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. In addition, although we believe the provision of digital educational resources through our intelligent learning systems and devices shall not be considered as after-school tutoring activities, and we have not received any notice from the competent government authorities indicating that such activities are deemed as after-school tutoring activities, we cannot assure you that the competent government authorities will not take a contrary view to ours. In the event that the provision of digital academic educational resources through our intelligent learning systems and devices is deemed as after-school tutoring activities, the academic educational resources provided by our intelligent learning systems and devices to K-9 students shall comply with all regulations related to academic after-school tutoring, including, among others, the Alleviating Burden Opinion. Our PRC operating entities of the intelligent learning systems and devices may then be deemed as Academic AST Institutions, and these entities will be prohibited from being controlled by us as the Alleviating Burden Opinion prohibits foreign ownership in Academic AST Institutions, including through contractual arrangements. Under such circumstances, we may be requested to unwind the contractual arrangements with respect to the operating entities of intelligent learning systems and devices.

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—The interpretation and implementation of the Foreign Investment Law are subject to changes and it remains uncertain as to how it may impact the viability of our current corporate structure, corporate governance, business, financial condition and results of operations.”

We have been further advised by our PRC legal counsel that if we and/or 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 wide discretion within their scope of authority 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 the consolidated affiliated entities;
- restricting our right to collect revenues or limiting our business expansion in China by way of entering into contractual arrangements;
- imposing fines or other requirements with which we may not be able to comply;
- requiring us to restructure our corporate structure or operations;
- restricting or prohibiting our use of the proceeds of our future offering to finance our business and operations in China; or
- taking other regulatory or enforcement actions that could be harmful to our business.

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

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

We have relied and expect to continue to rely on contractual arrangements with the variable interest entities, their respective subsidiaries and/or schools and their respective shareholders to operate substantially all of our education business. These contractual arrangements is not as effective in providing us with control over the variable interest entities as direct ownership. From the legal perspective, if the variable interest entities, any of their subsidiaries and/or schools 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. Our contractual agreements have not been tested in a court of law. As a result, it is difficult to predict the outcome of legal proceedings regarding enforcement of these contractual agreements. In the fiscal years ended May 31, 2021, 2022 and 2023, the consolidated affiliated entities contributed in aggregate 99.9%, 99.6% and 99.5%, 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 the 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 the 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 the 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 the variable interest entities and their respective shareholders, each shareholder of the 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 the VIEs of their obligations under the relevant contractual arrangements. The equity pledges of shareholders of the variable interest entities under these equity pledge agreements have been registered with the relevant local branch of the SAMR. According to the Civil Code of PRC, 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 Civil Code of PRC, 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 the VIEs or any of the shareholders of the VIEs 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 the 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 the variable interest entities, to designate another PRC person or entity to replace the shareholder pursuant to the direct transfer option we have under the option agreement.

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

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

New Oriental China is the sole shareholder of Beijing Xuncheng as of May 31, 2023. 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 12.2% of our total common shares issued and outstanding as of September 15, 2023. 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.

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 the 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 the 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 the 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 the 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, regulations and policies.

Laws, regulations and policies governing PRC private education are subject to ongoing changes, which may materially affect our ability to operate private schools. For example, the Alleviating Burden Opinion has brought and will continuously bring significant impact on our operation. See “—Significant risks exist in relation to the interpretation and implementation of, or proposed changes to, the PRC laws, regulations and policies regarding the private education industry. In particular, our compliance with the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education and the implementation measures issued thereunder by the relevant PRC government authorities has had, and could have further, material adverse effect on us” 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 the VIEs 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 the VIEs, do not represent an arm’s-length price and adjust the 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 the 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 the 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.

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

We are a holding company, and we may rely on dividends from our wholly-owned subsidiaries in China and service 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 retained earnings, 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. 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 under the classification system of requiring reasonable returns and not requiring reasonable returns 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. At the end of each fiscal year, every private school under the classification system of for-profit and non-profit is required to allocate a certain amount to its development fund for the development of the school. In the case of a for-profit private school, this amount shall be no less than 10% of the audited annual net income of the school, while in the case of a non-profit private school, this amount shall be equal to no less than 10% of the audited annual increase in the unrestricted 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, 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.”

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 common shares and/or ADSs.

To comply with PRC laws and regulations relating to foreign ownership restrictions in the education business and value-added telecommunication services, we currently conduct substantially all of our operations in China through (i) contractual arrangements with New Oriental China and its schools and subsidiaries as well as its shareholder, and (ii) contractual arrangements with Beijing Xuncheng, a wholly-owned subsidiary of New Oriental China, and its 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 Civil Code of PRC, 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, regulation 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 regulates over China's economic growth through allocating resources, regulating 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 regulation over capital investments or changes in tax regulations. The growth rate of the Chinese economy has gradually slowed since 2010. COVID-19 has had an adverse impact on the Chinese economy in 2022. 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 has had a severe and negative impact on the Chinese and the global economy since 2020. 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 problems that may arise from the unwinding of those policies. Recently, the Russia-Ukraine conflict has caused, and continues to intensify, significant geopolitical tensions in Europe and across the world. This conflict and the imposition of broad economic sanctions on Russia could raise energy prices and disrupt global markets. 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 enforcement of laws, and changes in laws and regulations in China 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. As China is a fast-growing economy, China is in the process of developing fully integrated legal system in order to regulate different aspects of economic activities and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. 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 fully compliant with these laws, regulations and policies, as well as their interpretations and implementations. In addition, any litigation in China may be time-consuming and may result in substantial costs and diversion of resources and management attention from the operation of our business.

The PRC government's oversight and discretion over our business operations could result in a material adverse change in our operations and the value of our ADSs and/or common shares.

We conduct our business primarily in China. Our operations in China are governed by PRC laws and regulations. The PRC government has significant oversight and discretion over the operation of our business, and it may influence our operations, which could result in a material adverse change in our operation and the value of our ADSs.

The PRC government has recently indicated an intent to exert more oversight over overseas offerings by and foreign investment in China-based issuers like us. For example, on July 6, 2021, relevant PRC government authorities promulgated the Opinions on Lawfully and Strictly Cracking Down Illegal Securities Activities, which stated that the administration and supervision of overseas-listed China-based companies will be strengthened, and the special provisions of the State Council on overseas issuance and listing of shares by such companies will be revised, clarifying the responsibilities of the relevant domestic industry regulatory authorities and other regulatory authorities. On February 17, 2023, the CSRC promulgated the Circular of the People's Republic of China on Administrative Arrangements for Filing of Overseas Offering and Listing of Domestic Enterprises, or the Circular of Overseas Listing and Offering, and the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies and five relevant guidelines, or the Overseas Listing Trial Measures. The Overseas Listing Trial Measures became effective on March 31, 2023. Pursuant to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information. According to the Circular of Overseas Listing and Offering, issuers that have already been listed in an overseas market by March 31, 2023, such as our company, are not required to make any immediate filing. However, under the Overseas Listing Trial Measures, such issuers will be required to complete certain filing procedures with the CSRC in connection with future securities offerings and listings outside of mainland China, including follow-on offerings, issuance of convertible bonds, offshore relisting after going-private transactions, and other equivalent offering activities. We cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us.

In addition, the Cybersecurity Review Measures and the Draft Data Security Regulations stipulate certain circumstances that may trigger the cybersecurity review by the CAC. See “—Risks Related to Our Business—Failure to comply with governmental regulation and other legal obligations concerning privacy, data protection and cybersecurity may subject us to penalties, damage our reputation and brand, and may materially and adversely affect our business, as we routinely collect, store and use data during our business” for more details.

It remains uncertain how PRC government authorities will regulate overseas listing in general in the future and whether we are required to complete filing or obtain any specific regulatory approvals from the CSRC, CAC or any other PRC government authorities for our overseas offerings. If the CSRC, CAC or other government authorities later promulgate new rules or explanations requiring that we obtain their approvals for our future overseas offerings, we may be unable to obtain such approvals in a timely manner, or at all, and such approvals may be rescinded even if obtained. Any such circumstance could significantly limit or completely hinder our ability to continue to offer securities to investors and cause the value of such securities to significantly decline or be worthless. In addition, implementation of industry-wide regulations directly targeting our operations could cause the value of our securities to significantly decline. Therefore, investors of our company and our business face potential uncertainty from actions taken by the PRC government affecting our business.

The interpretation and implementation of the Foreign Investment Law are subject to changes and it remains uncertain as to 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.

Its interpretation and implementation are subject to changes, 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 and our Apps, including those used for our online education business and sale of private label products and livestreaming e-commerce 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.

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 Alleviating Burden Opinion and the State Council Circular 80, institutions providing after-school tutoring services on academic subjects shall obtain the private school operation permit. The State Council Circular 80 and the Amended Implementation Rules further require the learning centers of a training school providing after-school tutoring services to make filings with the relevant education authorities. For the non-academic tutoring services, the Alleviating Burden Opinion requires that local governmental authorities shall clarify the competent authorities for administering the non-academic after-school tutoring institutions, by classifying sports, culture and art, science and technology and other non-academic subjects, formulate standards among different classification of non-academic tutoring and conduct strict examination before granting permission. As of the date of this annual report, certain local governmental authorities have promulgated rules that require non-academic tutoring service providers in areas such as art, music, physics, among others, to obtain private school operation permit. We have obtained the private school operation permits as required, or are otherwise in the process of applying for such operation permits in accordance with the local rules and policies. Furthermore, the Alleviating Burden Opinion further provides that administration and supervision over academic subjects tutoring institutions for students in grade ten to twelve shall be implemented by reference to the relevant provisions of the Alleviating Burden Opinion, however, it remains uncertain as to how and to what extent the administration over academic subjects tutoring institutions for students in grade ten to twelve will be implemented by reference of the Alleviating Burden Opinion. Therefore, we cannot assure you that we would not be required to take further actions, including obtaining operation permits, regarding our academic tutoring services for students in grade ten to twelve to comply with the Alleviating Burden Opinion and its implementation measures. In addition, our online education business and e-commerce business are operated by our majority-owned subsidiary, East Buy, and we are required to obtain a number of licenses, permits and approvals in order to provide such services. For example, we have obtained ICP license, Food Operation License, Permit for Operating Publications and Commercial Performance Permit.

Our business is also subject to various health, safety, food 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, or that we will be able to update existing licenses or obtain additional licenses, approvals, permits, registrations or filings necessary for our business expansion from time to time. For example, some of our kindergartens are in the process of renewing healthcare licenses or food operation licenses. Moreover, there may be new rules, regulations, government interpretations or government policies in China to govern the businesses we current operate. Such new rules, regulations, government interpretations or government policies may subject our business operations to additional license or filing requirements. 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. In addition, we may develop new business lines or make changes to the operations of certain of the current business of our PRC subsidiaries or the consolidated affiliated entities, which may require us to obtain additional licenses, approvals, permits, registrations and filings. However, there can be no assurance that we are, or will be, able to successfully obtain such licenses, approvals, permits, registrations and filings in a timely manner, or at all. If we fail to obtain and maintain such required licenses and permit, as well as required registrations and filings, we may be subject to fines, legal sanctions or an order to suspend our services and our business, financial condition and operational results may be materially and adversely affected.

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.” The failure of our current and future PRC resident beneficial owners to timely file or amend their SAFE registrations, if required, may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries' ability to distribute dividends or repay loans in foreign exchange to our company or otherwise adversely affect our business.

We face regulatory measures 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 approval of and filings with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether we will be able to obtain such approval or complete such filings or how long they might take.

In August 2006, the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration of Taxation, or the SAT, the SAMR, the China Securities Regulatory Commission, or the CSRC, and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, 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. In addition, the Anti-Monopoly Law requires that the SAMR be notified in advance of any concentration of undertaking if certain thresholds are triggered. Moreover, the Rules of the Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated in 2011 specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the PRC Ministry of Commerce, and prohibit any attempt to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. See "Item 4. Information on the Company—B. Business Overview—Regulation—Regulations Relating to Anti-Monopoly" for more details. We may expand our business in part by acquiring complementary businesses. Complying with the requirements of the M&A Rules and Anti-Monopoly Law and related regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Further, pursuant to the Circular 11 issued by the NDRC on December 26, 2017 and became effective on March 1, 2018, outbound investment via the overseas enterprises controlled by PRC residents are subject to verification and approval, record-filing and reporting requirements to the NDRC. According to Circular 11, sensitive projects, such as outbound investment in real estate, hotels, news media, cinemas or sports club, carried out by overseas enterprises controlled by PRC residents shall obtain verification and approval from the NDRC prior to the implementation of the project. The non-sensitive projects carried out by the overseas enterprise directly controlled by PRC residents, including by means of making asset or equity investment by companies established for financing and investing, such as fund institutions, or providing financing or guarantee, shall complete record-filing with the competent authority prior to the implementation of such project. The non-sensitive projects carried out by the overseas enterprise indirectly controlled by PRC residents with the investment amount over US\$300 million shall be reported to the NDRC of relevant information by submitting an information reporting form for large-amount non-sensitive projects. See "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.

On July 6, 2021, the PRC government authorities issued the Opinions on Strictly Scrutinizing Illegal Securities Activities in Accordance with the Law. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies.

On February 17, 2023, the CSRC promulgated the Circular of the People's Republic of China on Administrative Arrangements for Filing of Overseas Offering and Listing of Domestic Enterprises, or the Circular of Overseas Listing and Offering, and the Trial Administrative Measures of the Overseas Securities Offering and Listing by Domestic Companies and five relevant guidelines, or the Overseas Listing Trial Measures. The Overseas Listing Trial Measures became effective on March 31, 2023. Pursuant to the Overseas Listing Trial Measures, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information. According to the Circular of Overseas Listing and Offering, issuers that have already been listed in an overseas market by March 31, 2023, such as our company, are not required to make any immediate filing. However, under the Overseas Listing Trial Measures, such issuers will be required to complete certain filing procedures with the CSRC in connection with future securities offerings and listings outside of mainland China, including follow-on offerings, issuance of convertible bonds, offshore relisting after going-private transactions, and other equivalent offering activities.

Furthermore, on February 25, 2023, the CSRC released the Provisions on Strengthening the Confidentiality and Archives Administration Related to the Overseas Securities Offering and Listing by Domestic Enterprises, or the Confidentiality and Archives Administration Provisions, which came into effect on March 31, 2023. The Confidentiality and Archives Administration Provisions require, among others, that PRC domestic enterprises seeking offering and listing of securities in overseas markets, either directly or indirectly, shall establish the confidentiality and archives system, and shall complete approval and filing procedures with competent authorities, if such PRC domestic enterprises or their overseas listing entities provide or publicly disclose documents or materials involving state secrets and work secrets of PRC government agencies to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals. It further stipulates that providing or publicly disclosing documents and materials which may adversely affect national security or public interests to relevant securities companies, securities service institutions, overseas regulatory agencies and other entities and individuals shall be subject to corresponding procedures in accordance with relevant laws and regulations.

In addition, we cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements on us. If it is determined in the future that approval and filing from the CSRC or other regulatory authorities or other procedures, including the cybersecurity review under the Cybersecurity Review Measures, are required for our offshore offerings, it is uncertain whether we can or how long it will take us to obtain such approval or complete such filing procedures and any such approval or filing could be rescinded or rejected. Any failure to obtain or delay in obtaining such approval or completing such filing procedures for our offshore offerings, or a rescission of any such approval or filing if obtained by us, would subject us to sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or filing or other government authorization for our offshore offerings. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of our listed securities. The CSRC or other PRC regulatory authorities also may take actions requiring us, or making it advisable for us, to halt our offshore offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures for our prior offshore offerings, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties or negative publicity regarding such approval requirement could materially and adversely affect our business, prospects, financial condition, reputation, and the trading price of our listed securities.

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 incompliance notification from any local government regarding employee benefit payments, nor have we been sanctioned for such matters. However, we cannot assure you that we will be able to make adequate employee benefit payments for every employee in a timely manner. If we fail to make adequate employee benefit payments, we may be subject to fines, late fees and legal sanctions, and our business, financial conditions and results of operations may be adversely affected.

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. As a result, the funds in our PRC subsidiaries or the consolidated affiliated entities in China may not be available to fund operations or for other use outside of China due to interventions in, or the imposition of restrictions and limitations on, the ability of our holding company, our subsidiaries, or the consolidated affiliated entities by the PRC government on currency conversion. Although currently there are not equivalent or similar restrictions or limitations in Hong Kong on cash transfers in, or out of, our Hong Kong entities (including currency conversion), if certain restrictions or limitations in China were to become applicable to cash transfers in and out of Hong Kong entities (including currency conversion) in the future, the funds in our Hong Kong entities, likewise, may not be available to meet our currency demand.

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/or 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 common shares and/or ADSs. For example, a further appreciation of the RMB against the U.S. dollar would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into the RMB for such purposes. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce our reported earnings in U.S. dollars, which in turn could adversely affect the price of our common shares and/or ADSs.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange 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 MOF and the SAT, in April 2008 and July 2008 which were amended in January 2016 and June 2016, respectively, have stipulated new criteria for such “high and new technology enterprises,” and all enterprises which had been granted such status before the effectiveness of the EIT Law are required to be re-examined according to such new rules before they can continue to be entitled to such preferential tax treatments.

A “high and new technology enterprise” is entitled to a favorable enterprise income tax rate of 15% and such qualification is reassessed by relevant governmental authorities every three years. Eight of our wholly-owned subsidiaries in China, including Beijing Smart Wood Technology Co., Ltd., or Beijing Smart Wood, Beijing Pioneer Technology Co., Ltd., or Beijing Pioneer, and six other subsidiaries, are qualified as “high and new technology enterprises.” Beijing Hewstone Technology Co., Ltd., or Beijing Hewstone and Beijing Decision Education & Consulting Co., Ltd., or Beijing Decision 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, 2023. 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 Chuangying Oriental Technology Co., Ltd., or Beijing Chuangying, Beijing Zhiyuan Hangcheng Technology Co., Ltd., 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.

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, and after-school tutoring institutions providing tutoring services on academic subjects in compulsory education area can only be registered as non-profit private schools under the Alleviating Burden Opinion. 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.

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.

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.

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 some of our PRC subsidiaries. Thus, dividends paid by our PRC subsidiaries to us through our Hong Kong wholly-owned subsidiaries may be subject to the 5% withholding tax if we and our Hong Kong subsidiaries are considered as “non-resident enterprises” under the EIT Law and our Hong Kong subsidiaries are considered as “beneficial owners” and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). If our Hong Kong subsidiaries are not regarded as the beneficial owners of any such dividends, they will not be entitled to the treaty benefits under the Double Taxation Arrangement (Hong Kong). As a result, such dividends would be subject to regular withholding tax of 10% as provided by the PRC domestic law rather than the favorable rate of 5% applicable under the Double Taxation Arrangement (Hong Kong).

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

In February 2015, the SAT issued the Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises, 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 non-resident enterprise income tax.

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

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

The relevant laws and regulations in China related to the online industry are relatively new and still evolving, and their interpretation and enforcement are subject to changes. 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 business falls within the definition of “Audio-visual Programs” and whether we are required to obtain 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 business falls within such definition. In addition, the interpretation of “online publishing service” remains uncertain. The online distribution of content, including our course materials, may be regarded as an “online publishing service” and we may be required to obtain an Online Publishing License. If the government authorities deem printing and providing physical learning materials to users as “publishing” or “publication distribution,” we may be required to obtain a Permit for Operating Publications. Information posted on our mobile apps and websites may be viewed as news information, and the release of such information on our mobile apps and websites may be deemed as “Internet news information services” and therefore we may be required to obtain Internet news information licenses. Further, there is no definition of “online education activities” under the Amended Implementation Rules. If our online learning contents and products are deemed as “online education activities” under the Amended Implementation Rules, certain of our operating entities may be required to obtain a private school operating permit. Moreover, the Opinions on Guiding and Regulating the Orderly and Healthy Development of Educational Mobile Apps issued jointly by the MOE with certain other PRC government authorities on August 10, 2019, or the Opinions on Educational Apps, require that mobile Apps that provide services for school teaching and management, student learning and student life, or home-school interactions, with school faculty, students or parents as the main users, and with education or learning as the main application scenarios, or the Education Apps, complete filings with competent provincial regulatory authorities for education. Following the issuance of the Opinions on Educational Apps, we completed filings for our Education Apps with relevant government authorities. However, to implement the Alleviating Burden Opinion, the MOE require all Educational Apps that have completed filings prior to the effective date of the Alleviating Burden Opinion to be re-submit filings to make sure they comply with relevant compliance requirements under the Alleviating Burden Opinion. As of the date of this annual report, we have already re-submitted filings or are otherwise in the process of re-submitting filings for our Educational Apps. If we fail to promptly complete such filing and comply with other applicable regulatory requirements, we may be blacklisted by the MOE or its local counterparts and prohibited from submitting any filings for six months, or may be subject to fines, regulatory orders to suspend our or the consolidated VIEs’ operations or other regulatory and disciplinary sanctions. Furthermore, although we have obtained ICP Licenses, which specifically permit us to provide certain internet information services, due to potential changes with respect to the interpretation of relevant laws and regulations by PRC government authorities, we cannot assure you that our ICP Licenses cover all the telecommunication services we currently provide, and in the event that our ICP Licenses are found not to cover all the telecommunication services we currently provide, we may be required to obtain additional Value-Added Telecommunications Business Operating Licenses or to update our existing ICP Licenses. In addition, the Internet Culture Measures require ICP operators engaging in Internet culture activities to obtain an Internet culture operation license, or Internet Culture Operation License, from the Ministry of Culture in accordance with the Internet Culture Measures. The term “Internet culture activities” includes, among other things, online dissemination of Internet cultural products (such as audio-video products, gaming products, performances of plays or programs, works of art and cartoons) and the production, reproduction, importation, publication 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 Operation License and Further Standardizing the Approval Work, which provides that activities including online performances fall in the scope of Internet Culture Operation 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. According to the Q&A posted on the website of Ministry of Culture and Tourism of the PRC (the “Q&A”), if the main content of the livestreaming activities features on sale of goods, such livestreaming activities do not fall within the scope of internet culture activities, no Internet Culture Operation License is required. Since our livestreaming e-commerce business through East Buy is for providing the sale of agricultural and other products, we are not required to obtain the Internet Culture Operation License for our livestreaming e-commerce business. However, given the potential changes in the interpretation and application of existing PRC laws and regulations, we may be required to obtain the Internet Culture Operation License for business operations in the future.

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, which will materially and adversely affect our business operation.

The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with 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. The auditor is located in mainland China, a jurisdiction where the PCAOB was historically unable to conduct inspections and investigations completely before 2022. As a result, we and investors in the ADSs were deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China in the past has made 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. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. However, if the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong, and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we and investors in our ADSs would be deprived of the benefits of such PCAOB inspections again, which could cause investors and potential investors in the ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the ADSs, or the threat of their being delisted, may materially and adversely affect the value of your investment.

Pursuant to the HFCAA, as amended by the Consolidated Appropriations Act that was signed into law on December 29, 2022, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our auditor was subject to that determination. On October 21, 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended May 31, 2022. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F for the fiscal year ended May 31, 2023.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. In accordance with the HFCAA, our securities would be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if we are identified as a Commission-Identified Issuer for two consecutive years in the future. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. A prohibition of being able to trade in the United States would substantially impair your ability to sell or purchase our ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

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

In China, there are more legal procedures to go through in order to obtain information needed for regulatory investigations or litigation initiated outside China, compared with legal procedures needed for obtaining information regarding investigations or litigation initiated inside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanism. Furthermore, according to Article 177 of the PRC Securities Law, or Article 177, which became effective in March 2020, no overseas securities regulator is allowed to directly conduct 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.

Furthermore, on July 6, 2021, the relevant PRC governmental authorities promulgated the Opinions on Strictly Scrutinizing Illegal Securities Activities, among which, it is mentioned that the administration and supervision of overseas-listed China-based companies will be strengthened, and the special provisions of the State Council on overseas issuance and listing of shares by such companies will be revised, clarifying the responsibilities of domestic industry competent authorities and regulatory authorities. It is possible that any new rules or regulations may impose additional requirements on us.

Risks Related to Our ADSs and Common Shares

We adopt different practices as to certain matters as compared with many other companies listed on the Hong Kong Stock Exchange.

We completed our public offering in Hong Kong in November 2020 and the trading of our common shares on the Hong Kong Stock Exchange commenced on November 9, 2020 under the stock code “9901”. As a company listed on the Hong Kong Stock Exchange pursuant to Chapter 19C of the Hong Kong Listing Rules, we are not subject to certain provisions of the Hong Kong Listing Rules pursuant to Rule 19C.11, including, among others, rules on notifiable transactions, connected transactions, share option schemes, publication of interim and annual results announcements, content of interim and annual reports as well as certain other continuing obligations. In addition, in connection with the listing of our common shares on the Hong Kong Stock Exchange, we obtained a number of waivers and/or exemptions from strict compliance with the Hong Kong Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Takeovers Codes and the SFO. As a result, we adopt different practices as to those matters as compared with other companies listed on the Hong Kong Stock Exchange that do not enjoy those exemptions or waivers.

Our articles of association are specific to us and include certain provisions that may be different from the requirements under the Hong Kong Listing Rules and common practices in Hong Kong. For example, Rule 19C.07(7) of the Hong Kong Listing Rules provides that the minimum stake required to convene an extraordinary general meeting and add resolutions to a meeting agenda must not be higher than 10% of the voting rights, on a one vote per share basis, in the share capital of a qualifying issuer (the “**10% Requisition Right**”), but our articles of association provide that at least one-third of the aggregate voting power of our company is required to convene an extraordinary general meeting. In March 2021, we revised our articles of association to comply with Rule 19C.07(7) of the Hong Kong Listing Rules, including adding the 10% Requisition Right in our articles of association.

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

The trading prices of our ADSs and common shares have been and are likely to continue to be volatile, which could result in substantial losses to holders of our common shares and/or ADSs.

The market prices of our ADSs and common shares have been and are likely to continue to be volatile and could fluctuate widely in response to a variety of factors, many of which are beyond our control. For example, the high and low closing prices of our ADSs on NYSE from June 1, 2022 to September 21, 2023 were US\$12.60 and US\$58.70, respectively. Likewise, the high and low closing prices on the Hong Kong Stock Exchange from June 1, 2022 to September 21, 2023 were HK\$10.10 and HK\$46.40, respectively. The market price of our ADSs and/or our common shares is likely to be highly volatile and subject to wide fluctuations in response to factors such as:

- actual or anticipated fluctuations in our operating results,
- announcements and implementations of new regulations and policies related to our business,
- 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 and/or common shares in the public market, and
- general economic, regulatory or political conditions in China and the U.S.

In addition, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong and/or the United States may affect the volatility in the prices of and trading volumes of our common shares and/or ADSs. The securities of some of these companies have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in trading prices. The trading performance of other Chinese companies' securities after their offerings, including private education companies, may affect the attitudes of investors toward Chinese companies listed in Hong Kong and/or the United States, which consequently may impact the trading performance of our common shares and/or ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have conducted any inappropriate activities. Furthermore, securities markets may from time to time experience significant price and volume fluctuations that are not related to our operating performance, such as the large decline in share prices in the United States, China, and other jurisdictions in early 2020 and in 2021, which may have a material and adverse effect on the trading price of our common shares and/or ADSs.

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

The trading market for our common shares and/or ADSs will be influenced by the research reports and ratings that securities or industry analysts or ratings agencies publish about us, our business and the private education market in China in general. We do not have any control over these analysts or agencies. If one or more of the analysts or agencies who cover us downgrades us or our securities, the price of our common shares and/or ADSs may decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our common shares and/or ADSs or trading volume to decline.

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

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying shares represented by the ADSs in accordance with the provisions of the deposit agreement. Under our memorandum and articles of association, the minimum notice period required to convene a general meeting is 14 days for as long as our shares remain listed on the Hong Kong Stock Exchange, or otherwise at least seven days. When a general meeting is convened, holders of ADSs may not receive sufficient notice of a shareholders' meeting to permit withdrawal of the underlying shares represented by their ADSs to allow them to cast their votes with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to holders of ADSs or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to holders of ADSs in a timely manner, but we cannot assure that holders of ADSs will receive the voting materials in time to ensure that they can instruct the depositary to vote their ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, holders of ADSs may not be able to exercise their right to vote and may lack recourse if the common shares underlying their ADSs are not voted as they requested. In addition, holders of ADSs will not be able to call a shareholders' meeting.

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

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

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

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

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

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

The recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. 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.

There is uncertainty as to whether the judgment of United States courts will be directly enforced in Hong Kong, as the United States and Hong Kong do not have a treaty or other arrangements providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters. However, a foreign judgment may be enforced in Hong Kong at common law by bringing an action in a Hong Kong court since the judgment may be regarded as creating a debt between the parties to it, provided that the foreign judgment, among other things, is a final judgment conclusive upon the merits of the claim and is for a liquidated amount in a civil matter and not in respect of taxes, fines, penalties, or similar charges. Such a judgment may not, in any event, be so enforced in Hong Kong if (a) it was obtained by fraud; (b) the proceedings in which the judgment was obtained were opposed to natural justice; (c) its enforcement or recognition would be contrary to the public policy of Hong Kong; (d) the court of the United States was not jurisdictionally competent; or (e) the judgment was in conflict with a prior Hong Kong judgment.

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

Our corporate affairs are governed by our memorandum and articles of association and by the Cayman Companies Act and the common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedents in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States or in Hong Kong. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States or Hong Kong, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States or a Hong Kong court.

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

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

Our articles 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 common shares and/or ADSs may fall and the voting and other rights of the holders of our common shares and/or ADSs may be materially and adversely affected.

We believe that we were a “passive foreign investment company” for United States federal income tax purposes for the taxable year ended May 31, 2023, which could result in significant 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 the VIEs (including their subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of such entities 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.

Based upon the nature and composition of our assets (in particular, the retention of substantial amounts of cash, deposits and investments), and the market price of our ADSs, we believe that we were a PFIC for U.S. federal income tax purposes for the taxable year ended May 31, 2023, and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income.

If we are 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”) in our ADSs and/or common shares will generally be subject to reporting requirements and may incur significantly increased U.S. federal 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 classified as a PFIC for any taxable year. See the discussion under “Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation —Passive Foreign Investment Company Rules” concerning the U.S. federal income tax consequences if we are or become classified as a PFIC.

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

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

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

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

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

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

Furthermore, the depository for the ADSs is entitled to charge holders fees for various services including for the issuance of ADSs upon deposit of common shares, cancellation of ADSs, distributions of cash dividends or other cash distributions, distributions of ADSs pursuant to share dividends or other free share distributions, distributions of securities other than ADSs and annual service fees. As a result, shareholders who exchange common shares into ADSs, and vice versa, may not achieve the level of economic return the shareholders may anticipate.

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

Since the listing of our common shares on the Hong Kong Stock Exchange, we have maintained a certain level of liquidity in the trading of our common shares on the Hong Kong Stock Exchange. However, we cannot assure you that that this level of liquidity will be sustained. The trading price or liquidity for our ADSs on the NYSE might not be indicative of those of our common shares on the Hong Kong Stock Exchange. If an active trading market of our common shares on the Hong Kong Stock Exchange is not sustained, the market price and liquidity of our common shares could be materially and adversely affected.

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

There is uncertainty as to whether Hong Kong stamp duty will apply to the trading or conversion of our ADSs.

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

Under the Hong Kong Stamp Duty Ordinance, any person who effects any sale or purchase of Hong Kong stock, defined as stock the transfer of which is required to be registered in Hong Kong, is required to pay Hong Kong stamp duty. The stamp duty is currently set at a total rate of 0.2% of the greater of the consideration for, or the value of, shares transferred, with 0.1% payable by each of the buyer and the seller.

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

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 compliance with regulatory policies promulgated in 2021, we have ceased offering the K-9 Academic AST Services in China since the end of 2021.

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 February 2023, the English name of Koolearn has been changed from "Koolearn Technology Holding Limited" to "East Buy Holding 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.

On November 9, 2020, our common shares commenced trading on the Main Board of the Hong Kong Stock Exchange under the stock code "9901." We raised from our listing in Hong Kong approximately US\$1.48 billion in net proceeds after deducting underwriting commissions, share issuance costs and the offering expenses.

On March 10, 2021, we implemented a one-for-ten share split. On April 8, 2022, we effected a change in the ratio of our ADSs to common shares from one ADS representing one common share to one ADS representing ten common shares. Except as otherwise indicated, all information in this annual report concerning share and per share data gives retroactive effect to the one-for-ten share split and the ADS ratio change.

On July 26, 2022, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$400 million of the Company's ADSs or common shares during the period from July 28, 2022 through May 31, 2023. Our board of directors further authorized to extend the share repurchase program launched in July 2022 by twelve months through May 31, 2024.

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 78 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.

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, 2023, we had a physical network of 85 schools and 663 learning centers in 78 cities and approximately 26,600 teachers. We deliver online courses through our online learning platforms, including Koolearn.com, our comprehensive online education and other services platform. 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 most cities, we primarily deliver courses in offline classroom settings, supported with interactive online learning components. For students in lower-tier cities, we broadcast courses delivered by well-known teachers from top-tier cities through our OMO system, and the local assistant lecturers monitor and provide in-person guidance and interactions with students onsite.

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, 2023, we had nine bookstores operated by us, and 241 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.

We have ceased our K-9 Academic AST Services since the end of 2021 and closed certain schools and learning centers in connection with the cessation of our K-9 Academic AST Services. The following table sets forth information about the locations of our schools, learning centers and bookstores as of May 31, 2023.

	<u>Number of Schools</u>	<u>Number of learning centers</u>	<u>Number of bookstores</u>
Beijing	5	20	1
Shanghai	1	26	1
Guangzhou	1	39	1
Wuhan	1	26	1
Yangzhou	1	4	—
Tianjin	1	15	—
Xi' an	1	24	1
Nanjing	2	41	—
Shenyang	1	9	—
Chongqing	1	22	1
Chengdu	1	23	—
Shenzhen	1	16	—
Xiangyang	1	7	—
Taiyuan	1	21	—
Haerbin	1	6	1
Changsha	1	23	—
Jinan	1	20	—
Zhengzhou	1	16	—
Hangzhou	1	46	—
Changchun	1	18	1
Shijiazhuang	1	11	—
Suzhou	2	33	—
Hefei	1	26	—
Kunming	1	6	—
Wuxi	1	14	—
Foshan	1	5	—
Fuzhou	1	20	—
Nanchang	1	11	—
Dalian	1	7	—
Lanzhou	1	8	1
Huangshi	1	—	—
Ningbo	1	3	—
Xiamen	1	15	—
Qingdao	2	19	—
Nanning	1	4	—
Xuzhou	1	4	—
Zhenjiang	1	5	—
Luoyang	1	3	—
Nantong	1	2	—
Hohhot	1	5	—
Jilin	1	—	—
Guiyang	1	1	—
Tangshan	1	6	—
Urumqi	1	2	—
Shiyan	1	—	—
Quanzhou	1	3	—
Wenzhou	1	3	—
Weifang	1	4	—
Zhuhai	1	3	—
Baoding	1	3	—
Yantai	1	4	—
Kaifeng	1	—	—
Handan	1	—	—
Nanyang	1	—	—

	<u>Number of Schools</u>	<u>Number of learning centers</u>	<u>Number of bookstores</u>
Shaoxing	1	3	—
Huzhou	1	—	—
Hong Kong	1	—	—
Yancheng	1	—	—
Jiaozuo	1	1	—
Dongguan	1	2	—
Haikou	1	—	—
Yiwu	1	—	—
Xining	1	—	—
Mianyang	1	—	—
Changshu	1	—	—
Jinzhong	1	—	—
Huizhou	1	—	—
Chengde	1	—	—
Zhangjiagang	1	—	—
Zhumadian	1	—	—
Weihai	1	—	—
Xuchang	1	—	—
Changzhou	1	—	—
Huaian	1	3	—
Taizhou	1	1	—
Wuhu	1	—	—
Langfang	1	—	—
Kunshan	1	1	—
Total	<u>85</u>	<u>663</u>	<u>9</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 setting, in a combination of online and offline classroom setting, and through our pure-play online platforms. Other than kindergartens, our classroom-based courses are generally designed to be completed in 2 to 16 weeks. Course fees are determined based on factors such as the length of the course, the size and the subject of the class, and the geographic location of the school. We offer flexible class sizes for our courses, including larger classes that range from 6 to 50 students per class and small classes that range from one to five students per class. In addition, we conduct the sale of private label products and livestreaming e-commerce business through East Buy. Our program, service and product offerings include six major areas: test preparation courses; non-academic tutoring; intelligent learning system and devices; private label products and livestreaming e-commerce business, and online education through East Buy; overseas study consulting services; and educational materials and distribution. In compliance with the Alleviating Burden Opinion and applicable rules, regulations and measures, we have ceased offering K-9 Academic AST Services in China since the end of 2021. We deconsolidated Beijing Changping New Oriental Bilingual School and Beijing New Oriental Yangzhou Foreign Language School, two private schools that provide compulsory education, from our company in September 2021 in compliance with Amended Implementation Rules for the Private Education Law.

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 Commonwealth countries, and the PRC. Our overseas test preparation courses primarily include IELTS, TOEFL, SAT, AP, A LEVEL, GCSE, TOEFL Junior, SSAT, ACT, GRE, GMAT and LSAT preparation courses and our PRC test preparation courses primarily include CET 4, CET 6, Postgraduate Entrance Exam and exams for students with junior college diplomas to obtain bachelor's degrees.

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

In our fiscal year ended May 31, 2023, we had approximately 495,000 student enrollments in our test preparation courses, of which approximately 284,000 were in overseas test preparation courses, and 211,000 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 40 to 300 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 RMB43,800 per course, as overseas test preparation courses generally have higher course fees.

Non-Academic Tutoring

We started to expand our non-academic tutoring courses in 2021, which focuses on cultivating students' innovative and comprehensive abilities. Our courses have been well-received by students since launch and we have rolled out non-academic tutoring courses in around 60 cities in China. In our fiscal year ended May 31, 2023, we had approximately 1,621,000 student enrollments in our non-academic tutoring courses.

Intelligent Learning Systems and Devices

We launched our intelligent learning systems and devices in 2021, which are designed to provide a tailored digital learning experience for students. Leveraging our advanced data and technology capabilities with our abundant teaching experience, together with our teachers that monitor and assess the learning curve of each student from our backend system, we provide customized and personalized learning materials and exercises for students. This innovative educational service not only improves students' learning efficiency, but also cultivates students' proactive learning habits. Our intelligent learning systems and devices have been tested and adopted in nearly 60 cities in China, and we had 183,000 active paid users in the fiscal year ended May 31, 2023. The contribution of intelligent learning systems and devices has been immaterial to our business for the fiscal year ended May 31, 2023.

Private Label Products and Livestreaming E-commerce Business, and Online Education through East Buy

Private Label Products and Livestreaming E-commerce Business

Leveraging on the technology developed for our original live-broadcast classrooms and with our existing team of talents, East Buy established an e-commerce platform under the brand name East Buy (东方甄选) for the sale of agricultural and other products in fiscal year 2022. Since December 2021, East Buy began to pilot livestreaming events on certain short-video platforms, such as Douyin. We provide a wide selection of high quality agricultural and other products through our supply chain management system and diversified cooperation with different third parties. We also provide a number of private label products under East Buy brand, including fresh foods, juice, coffee, tea, bedding, among others. We have a team of livestreaming hosts and have developed an array of livestreaming channels, such as East Buy (东方甄选), East Buy Book (东方甄选图书号), East Buy Private Label Products (东方甄选自营产品), and East Buy Beautiful Life (东方甄选美丽生活), focusing on different product categories.

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 East Buy Holding Limited (formerly known as Koolearn Technology Holding Limited), our majority-owned subsidiary, and offer comprehensive online education courses to students through Koolearn.com, including college educational services. 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. We offer our courses and programs in multiple formats, including live and pre-recorded courses in different class sizes. 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.

Overseas Study Consulting Services

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.

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, 2023, we developed and edited approximately 516 titles and distributed approximately 17.0 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 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.

Our Teachers

We have a team of passionate and high quality teachers that are essential to our success. We have established well-developed methods for hiring, training and retaining qualified teachers, which include a rigorous recruiting process, periodic training in teaching methods and skills, school culture and philosophy, as well as a competitive base salary coupled with performance-based bonuses. We believe that our competitive and incentivizing remuneration package, career advancement opportunities, and systematic teacher training programs allow us to recruit, train and retain top quality teachers in the industry. As of May 31, 2023, we employed approximately 26,600 teachers, many of whom are from top universities in China or have studied overseas. Our teachers consist primarily of full-time teachers, and to a lesser extent, contract teachers. The number of contract teachers we employ may be subject to seasonal fluctuations as we tend to have more student enrollments in our test preparation courses during summer school holidays.

Recruitment

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

Training and supervision

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

Utilizing our data insights from our OMO system, we ensure consistency in teaching quality across our courses. We use our Quality Assurance Development (QAD) system to monitor and evaluate the performance of teachers. We identify the weaknesses of our teachers and provide tailored recommendations to them to address particular areas for improvement.

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 1,400 personnel involved in our content development as of May 31, 2023. 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.

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.

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.

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 test preparation 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 and experiences 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 test preparation 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.

In addition, we face intense competition from other livestreaming e-commerce players. Some of our competitors may have longer operating histories and greater financial, technical and marketing resources than we do or have an advantage in attracting and retaining consumers and business partners. In addition, our competitors may have larger consumer bases or more established brand names than we do and therefore would be able to more effectively leverage their consumer bases and brand names to conduct livestreaming activities and operate e-commerce business.

Seasonality

We have experienced, and expect to continue to experience, seasonal fluctuations in our operations, primarily due to seasonal changes in student enrollments in educational business and some other services. 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. 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 and was subsequently amended on April 29, 2021. After the effectiveness of the 2015 amended Educational Law, 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 private school operation permit and shall be registered with the Ministry of Civil Affairs or its local counterparts as a privately run non-enterprise institution.

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

On November 7, 2016, the Standing Committee of the National People's Congress promulgated the Amended Private Education Law, which became effective on September 1, 2017. The 2016 Amended Private Education Law was last amended and became effective on December 29, 2018.

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.

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 private school operation permit, 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.

Amended Implementation Rules

On April 7, 2021, the State Council promulgated the Amended Implementation Rules for the Private Education Law, or the Amended Implementation Rules, which became effective on September 1, 2021. The Amended Implementation Rules provides, among others, that:

- social organizations and individuals are prohibited from controlling a private school that provides compulsory education or a non-profit private school that provides pre-school education through mergers and acquisitions and control agreements. A private school providing compulsory education is prohibited from conducting transactions with its related party. Relevant government authorities shall enhance the supervision on the agreements entered into between non-profit private schools and its related party and shall review such transaction on an annual basis;
- online education activities using internet technology are encouraged by the regulatory authorities and shall comply with laws and regulations related to internet management. A private school engaging in online education activities using internet technology shall obtain the relevant private school operation permit. It shall also establish and implement internet security management systems and take technical security measures. Upon discovery of any information whose release or transmission is prohibited by applicable laws or regulations, the private school shall immediately cease the transmission of that information and take further remedial actions, such as deleting that information, to prevent it from spreading. Records pertaining to the situation shall be kept and reported to the appropriate authorities; and
- every private school is required to allocate a certain amount to its development fund for the development of the school. In the case of a for-profit private school, this amount shall be no less than 10% of the audited annual net income of the school, while in the case of a non-profit private school, this amount shall be equal to no less than 10% of the audited annual increase in the unrestricted net assets of the school, if any.

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.”

Before September 1, 2017, the date the 2016 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 legal 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 2016 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.

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.

On May 6, 2020, the General Office of the MOE promulgated the Notice on the Negative List of Advanced Training in Six Subjects of Compulsory Education (for Trial Implementation), which prohibits after-school tutoring institutions from providing advanced training that do not follow the formal school curricula to students in primary schools and secondary schools, and sets forth the typical activities that shall be regarded as advanced training in the six subjects of Chinese, mathematics, English, physics, chemistry and biology.

On October 13, 2020, the General Office of the MOE and the General Office of the SAMR jointly promulgated the Notice on the Centralized Rectification of After-school Tutoring Institutions' Illegal Acts of Infringing Customers' Rights by Using Unfair Standard Terms. The Notice stipulates that local education and market regulation authorities shall increase the efforts for the investigation of after-school tutoring institutions' illegal acts which infringes customers' rights by using unfair standard terms to exempt their own liability, increase customers' liability and exclude customers' legal rights.

On March 30, 2021, the MOE promulgated the Guiding Opinions of the Ministry of Education on Vigorously Promoting the Scientific Connection of Kindergartens and Primary Schools, which prohibits after-school tutoring institutions from providing training for pre-school children in violation of regulations and provides that after-school tutoring institutions in violation of regulations above shall be included in the blacklist.

On April 8, 2021, the General Office of the MOE enacted the Notice of Strengthening the Management of Homework for Compulsory Education, which requires that the local governments shall implement prohibition measures on leaving homework as an important part of the daily supervision on after-school training institutions in accordance with relevant regulations, and in order to avoid reducing the burden in schools but increasing the burden after-school, after-school training institutions shall not leave homework to primary and secondary school students.

On July 24, 2021, the General Office of State Council and the General Office of Central Committee of the Communist Party of China jointly promulgated the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education, or the Alleviating Burden Opinion, which provides that, among other things, (i) local government authorities shall no longer approve new after-school tutoring institutions providing tutoring services on academic subjects for students in compulsory education, and the existing after-school tutoring institutions providing tutoring services on academic subjects shall be registered as non-profit; (ii) online Academic AST Institutions that have filed with the local education administration authorities providing tutoring services on academic subjects shall be subject to review and re-approval procedures by competent government authorities, and any failure to obtain such approval will result in the cancellation of its previous filing and ICP license; (iii) Academic AST Institutions are prohibited from raising funds by listing on stock markets or conducting any capitalization activities and listed companies are prohibited from investing in Academic AST Institutions through capital markets fund raising activities, or acquiring assets of Academic AST Institutions by paying cash or issuing securities; and (iv) foreign capital is prohibited from controlling or participating in any Academic AST Institutions through mergers and acquisitions, entrusted operation, joining franchise or variable interest entities.

Any violation of the foregoing shall be rectified. Moreover, the Alleviating Burden Opinion specifies a series of operating requirements that after-school tutoring institutions must meet, including, among other things, (i) after-school tutoring institutions shall not provide tutoring services on academic subjects during national holidays, weekends and winter and summer breaks; (ii) for online tutoring, each session shall be no more than thirty minutes and the training shall end no later than 9:00 p.m.; (iii) no advertisements for after-school tutoring shall be published or broadcasted in the network platforms and billboards displayed in the mainstream media, new media, public place and residential areas; (iv) the provision of overseas education courses is strictly prohibited; (v) fees charged for academic subjects tutoring in compulsory education shall be included into government-guided price management, and excessive high fees and excessive profit-seeking behaviors will be suppressed; (vi) government authorities will implement risk management and control for the pre-collection of fees by after-school tutoring institutions with requirements such as setting up third-party custodians and risk reserves, and strengthen supervision over loans regarding tutoring services; (vii) online tutoring for preschool-age children is prohibited, and offline academic subjects (including foreign language) tutoring services for preschool-age children is also strictly prohibited; (viii) no more approval of new after-school tutoring institutions providing tutoring services on academic subjects for pre-school-age children and students on grade ten to twelve will be granted; and (ix) administration and supervision over academic subjects tutoring institutions for students on grade ten to twelve shall be implemented by reference to the relevant provisions of the Alleviating Burden Opinion.

On July 28, 2021, the General Office of MOE promulgated the Notice on Further Clarifying the Scope of Academic Subjects and Non-Academic Subjects of After-School Tutoring in the Compulsory Education, which specifies that according to the national curriculum on compulsory education, when after-school institutions carry out tutoring, morality and rule of law, Chinese, history, geography, mathematics, foreign language (including English, Japanese, Russian), physics, chemistry and biology are classified as academic subjects, while sports (or sports and health), art (or music, art), and comprehensive practical activities (including information technology education, labor and technology education) are classified as non-academic subjects.

On August 18, 2021, the Beijing Municipality Government and the Beijing Municipal Committee of the Communist Party of China jointly published the full text of the Beijing Municipality's Measures to Further Reduce the Burden of Homework and After-School Tutoring on Students in Compulsory Education in Beijing, or the Beijing Measures, to implement the Alleviating Burden Opinion. The Beijing Measures provide, among others, that (i) no new Academic AST Institutions will be approved, while existing Academic AST Institutions will be subject to review and re-registration aimed at reducing their numbers by phases; the remaining Academic AST Institutions shall all be registered as non-profit; (ii) online Academic AST Institutions previously filed with the local education administration authorities will be subject to review and re-approval; the registration and ICP license of any disqualifying online Academic AST Institutions will be rescinded; (iii) after-school tutoring institutions are strictly prohibited from providing tutoring services on academic subjects during national holidays, weekends, winter and summer breaks; (iv) Academic AST Institutions are prohibited from (a) offering classes over contents outside of or in advance of the school curriculum, (b) offering classes based on any foreign curriculum, (c) soliciting and recruiting school teacher by offering excessive compensation, or (d) employing foreign personnel abroad to carry out training activities; non-Academic AST Institutions providers are prohibited from offering tutoring services on academic subjects; (v) prices for Academic AST Institutions will need to follow the guidelines from the government to prevent any excessive charging or excessive profit-seeking activity; (vi) Academic AST Institutions are prohibited from financing by way of listing its securities or conducting other capital market activities; listed companies may not invest in Academic AST Institutions through capital markets fundraising activities, and may not acquire assets of Academic AST Institutions by paying cash or issuing securities; foreign capital is prohibited from controlling or participating in Academic AST Institutions through merger and acquisitions, entrusted operations, joining franchise or using variable interest entities.

On August 25, 2021, the General Office of MOE issued the Administrative Measures for After-School Tutoring Materials for Primary and Secondary School Students (for Trial Implementation), which provide that, among others, (i) after-school tutoring materials for primary and secondary school students and staff preparing such tutoring materials shall meet certain requirements specified in such measures, which include, among others, tutoring materials shall follow the national curriculum standard and shall not provide contents in advance of the school curriculum; (ii) after-school tutoring institutions shall establish internal management system for the tutoring materials and the staff preparing such tutoring materials; (iii) after-school tutoring institutions shall conduct internal review of the tutoring materials and the local education administrations shall conduct external review of the tutoring materials; (iv) after-school tutoring institutions may only use tutoring materials that have been internally and externally reviewed or if the materials have been officially published; (v) after school tutoring institutions shall file with the relevant education administrations the tutoring materials and the staff preparing such materials; (vi) after-school tutoring institutions in violation of the measures will be subject to rectification and shall not use the relevant tutoring materials during the rectification period; if the after-school tutoring institution refuses to rectify within the time limit or if the violation is severe, its private school operation permit may be revoked by the local education administration.

On September 7, 2021, the MOE published on its official website that the MOE, together with two other government authorities, issued a circular requiring all Academic AST Institutions to complete registration as non-profit by the end of 2021, and all Academic AST Institutions shall, before completing such registration, suspend enrollment of students and charging fees.

On September 9, 2021, the General Office of MOE and the General Office of the Ministry of Human Resources and Social Welfare jointly issued the Administrative Measures for Practitioners of the After-School Tutoring Institutions (for Trial Implementation), which set out a series of requirements for the after-school tutoring institutions with respect to their employed teachers, research staff and teaching assistants. After-school tutoring institutions in violation of such requirements will be subject to rectification. If an after-school tutoring institution violates the requirements several times or violates several requirements, such after-school tutoring institution is prohibited from enrollment of students and shall not conduct tutoring activities during the rectification period; and if the after-school tutoring institution refuses to rectify within the time limit or if the violation is severe, its private school operation permit may be revoked by the local education administration.

On September 27, 2021, the General Office of MOE and the General Office of SAMR promulgated the Notice on Issuing the Form of Service Contract for After-school Training Provided to Primary and Secondary School Students, which requires the local competent regulatory authorities to guide the relevant parties to use the model form of service contract for after-school training activities provided to primary and secondary school students. The model form of service contract covers the obligations and rights of parties involved in the after-school training, including detailed provisions on training fees, refund arrangement and default liabilities.

On October 21, 2021, the MOE jointly with certain other PRC government authorities, promulgated the Notice on Strengthening the Supervision of After-School Tutoring Institutions Pre-collection of Fees, which requires the pre-collection of fees by Academic AST Institutions and non-academic after school tutoring institutions shall be supervised. Local government will adopt bank custodians or risk reserves to control such risk with the consideration of local situation.

On November 8, 2021, the General Office of MOE promulgated the Identification Guidelines for Classification of After School Training Programs for Compulsory Education, which stipulates that the identification of academic after school training shall consider factors including training purpose, training content, training methods, valuation methods and others. Furthermore, the General Office of MOE issued the Notice on Investigation and Publishing of Providing Academic After School Training in Disguised Methods Illegally, which prohibits the invisible or variant form of providing academic after school training in violation of relevant laws and regulations.

In March 2022, the MOE, National Development and Reform Commission, or NDRC and SAMR jointly issued the Notice on Regulating Non-Academic After School Training Institutions, which provide that, among others, (i) non-academic after school tutoring institutions shall have the corresponding qualifications and their staffs shall have the corresponding proofs for their profession; (ii) non-academic after school tutoring institutions shall ensure that training contents and training methods are suitable for the age, mental and physical characteristics and cognitive level of students; (iii) the training contents, training hours, charging items, charging standards and other information of non-academic after school tutoring institutions shall be made public and subject to public supervision; (iv) non-academic after school tutoring institutions shall use the form of service contract for after-school training activities provided to primary and secondary school students, strictly performing contractual obligations and regulating its charging behaviors; (v) non-academic after school tutoring institutions' unfair competition by fictitious original prices, false discounts, false publicity, monopolistic behaviors and any form of price fraud are prohibited; (vi) the pre-collection of fees by non-academic after school tutoring institutions shall be deposited to the special account for fee collection and tuition fees shall not be collected in a lump sum, or in disguised form of recharging or measured cards for more than 60 classes or for a course length of more than three months; and (vii) non-academic after school tutoring institutions shall comply with requirements relating to premise, facilities and fire safety.

On May 27, 2022, the MOE published a notice on its website, which states that the MOE is regulating and continues to regulate the non-academic tutoring institutions, by means of examination of qualifications of institutions, regulation of fee charging and supervision of pre-paid fees. Such notice also states that as of May 15, 2022, about 88% of the non-academic tutoring institutions nationwide have implemented third-party custodians or risk reserve funds to manage the risk of pre-paid fee.

In addition, the Alleviating Burden Opinion also requires that local government authorities shall clarify the competent authorities for administering the non-academic after-school tutoring institutions, by classifying sports, culture and art, science and technology and other non-academic subjects, formulate standards among different classification of non-academic tutoring and conduct strict examination before granting permission. As of the date of this annual report, certain local government authorities have promulgated rules that require non-academic tutoring service providers in areas such as art, music, physics, among others, to obtain private school operation permit.

On November 21, 2022, the MOE and relevant authorities published the Opinions on Strengthening the Prevention and Administration of Invisible and Variant Tutoring on Academic Subjects, which stipulates that competent government authority will strengthen control and supervision over key locations such as commercial buildings and residential areas where there is a high incidence of illegal after-school tutoring, and institutions and individuals who engage in illegal after-school tutoring will be subject to penalties.

On November 23, 2022, the MOE published on its website the Provisional Measures for Administrative Penalties on After-School Tutoring (Draft for Comments) to solicit for public comments, which stipulates that individuals, legal entities or organizations that conduct after-school tutoring in violation of the Provisional Measures for Administrative Penalties on After-School Tutoring may be subject to order of rectification, warning, fines, penalties, and other regulatory measures.

On November 30, 2022, the MOE and relevant authorities published Opinions on Regulation of Non-Academic After-School Tutoring for Primary and Secondary School Students, which provide that, among others, (i) local governments shall identify corresponding competent authorities for different tutoring categories and set forth basic standards; (ii) non-academic tutoring institutions shall comply with requirements relating to premise, facilities, fire safety, environment protection and food safety; (iii) practitioners shall have corresponding capability or certificates for different tutoring categories, and tutoring institutions shall not solicit or recruit primary and secondary school teachers; (iv) non-academic online tutoring institutions shall obtain certificates issued by provincial government authorities; (v) class times shall not conflict with the teaching time of the local primary and secondary schools, and offline after-school trainings shall end no later than 8:30 p.m. and online live trainings shall end no later than 9:00 p.m.; and (vi) tuition fees collected by a tutoring institution shall not be collected in a lump sum for more than 60 course sessions, or for a course length of more than three months, or for more than 5,000 RMB, and tutoring institutions shall open a special bank account for the tuition fees and file the account information and other required information with government authorities. In addition, any violation under such opinions of a non-academic after-school tutoring institution shall be rectified accordingly by the end of June 2023.

On August 23, 2023, the MOE issued Interim Measures for Administrative Penalties on Off-campus Tutoring, or the Interim Measures on Off-campus Tutoring, which will become effective on October 15, 2023. The Interim Measures on Off-campus Tutoring set out the general requirements for administrative penalties for illegal off-campus tutoring operated by any natural person, legal person or other organization that is offered to preschool children over 3 years of age, and primary and secondary school students. The Interim Measures on Off-campus Tutoring provides that the following circumstances shall constitute illegal off-campus tutoring, and relevant natural person, legal person or other organization conducting such illegal off-campus tutoring may be subject to various administrative penalties, such as orders to rectify or cease tutoring activities, returning fees charged, revocation of operation approval, warning, criticism and fines: (i) any natural person, legal person or other organization carries out after-school tutoring without requisite private school operating permit and meets certain conditions, including having a specific tutoring facility for offline tutoring activities or a specific website or application for online tutoring activities, two or more tutoring personnel and corresponding organizational structure and division of work; (ii) any natural person, legal person or other organization carries out certain after-school academic tutoring activities in a disguised form without meeting the conditions as prescribed above but also without a private school operating permit; (iii) any after-school tutoring institution carries out after-school tutoring beyond the scope of its private school operating permit; (iv) any after-school tutoring institution carries out after-school tutoring in violation of applicable laws and regulations; (v) any after-school tutoring institution has the problem of disorganized management; and (vi) any after-school tutoring institution organizes or participates in the organization of social competitions without approval for preschool children over 3 years of age, and primary and secondary school students.

As the above regulations and rules on implementing the Alleviating Burden Opinion are relatively new, their interpretation and implementation are subject to changes, we cannot assure you that we would not be required to take further actions regarding our tutoring services to comply with these regulations and rules, and there can be no assurance that we could fully comply with any further or detailed requirements regarding our tutoring services in a timely manner, or at all. For detailed discussion, please see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—Significant risks exist in relation to the interpretation and implementation of, or proposed changes to, the PRC laws, regulations and policies regarding the private education industry. In particular, our compliance with the Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education and the implementation measures issued thereunder by the relevant PRC government authorities has had, and could have further, material adverse effect on us.”

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. Further on September 1, 2023, the SCNPC published the further Revised Draft Preschool Education Law to solicit for public comments. The Revised Draft Preschool Education Law repeats the provisions restricting kindergartens from pursuing profits and sets forth the legal liabilities for violation of such provisions.

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.

On September 19, 2019, the MOE, jointly with certain other PRC government authorities, issued the Guidance Opinions on Promoting the Healthy Development of Online Education, which provides, among others, that (i) social forces are encouraged to establish online education institutions, develop online education resources, and provide high quality educational services; and (ii) an online education negative list shall be promulgated and industries not included in the negative list are open for all types of entities to enter into.

On November 27, 2020, the MOE and the Office of the Central Cyberspace Affairs Commission jointly promulgated the Notice on Further Strengthening the Standardized Management of Online Course Platforms for Minors. The Notice emphasizes that local cyberspace authorities and education authorities shall regularly organize screening of the training platforms for minors and take measures such as suspending or removing training platforms or requiring training platforms to rectify within a given time limit. After such rectification is completed, the education authorities will review the filings.

On March 30, 2021, the Basic Education Department of the MOE promulgated the Circular on Further Strengthening the Sleep Management of Primary and Secondary School Students, which restates that offline after-school trainings shall end no later than 8:30 p.m. and online live trainings shall end no later than 9:00 p.m., and provides that no homework shall be arranged in any form such as pre-class preparation, after-class consolidation, homework practice and WeChat group punching.

On May 18, 2021, Beijing Municipal Education Commission, jointly with certain other PRC government authorities, promulgated the Trial Administrative Measures on the Pre-payment of Tuition Fees Collected by Academic After-school Tutoring Institutions in Beijing, which intends to regulate the pre-payment of tuition fees collected by online and offline academic after-school tutoring institutions in Beijing. The measures provides, among others, that (i) tuition fees collected by an online or offline academic after-school tutoring institution shall not be collected in a lump sum for more than 60 course sessions when charged based on the number of classes, or for a course length of more than three months when charged based on the length of the course; (ii) tuition fees shall not be collected earlier than one month before commencement of new course sessions when charged based on the length of the course, and shall not be collected earlier than one month or the date when there are still more than twenty course sessions left before commencement of new course sessions when charged based on the number of the classes; and (iii) an academic after-school tutoring institution shall set up a custodian bank account for pre-payment tuition fees it collects and the bank will provide fund custodian services without charging from the academic after-school tutoring institution and students.

Pursuant to the Law for Protection of Minors which was issued by the SCNPC on September 4, 1991 and was recently amended on October 17, 2020 and became effective on June 1, 2021, online education products and services which are targeted at minors shall not include any links to online games or provide any push advertisements and other information that is irrelevant to teaching. In addition, schools shall not use public holidays, weekends, winter and summer break periods to organize students in primary and secondary schools to take lessons collectively, which will aggregate students' burden of study and after-school tutoring service providers may not provide primary school curriculum education to the preschool-aged minors.

On September 18, 2021, the General Office of MOE, together with other government authorities, issued a circular requiring all online after-school tutoring institutions that have filed with the local education administration authorities providing tutoring services on academic subjects in compulsory education area to obtain the private school operation permit by the end of 2021, and all such online after-school tutoring institutions shall, before obtain such permit, suspend enrollment of students and charging fees.

Regulations on 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. Following the issuance of the Opinions on Educational Apps, we submitted filings for our education Apps with relevant government authorities. However, to implement the Alleviating Burden Opinion, the MOE require all Educational Apps that have submitted filings to re-submit their filings to make sure they comply with relevant compliance requirements under the Alleviating Burden Opinion. As of the date of this annual report, we have already re-submitted filings or are otherwise in the process of re-submitting filings for our Educational Apps. For detailed discussion, please see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business—If we fail to obtain and maintain the licenses and approvals required for online business in China, our business, financial condition and results of operations may be materially and adversely affected."

According to the Provisions on the Administration of Information Services of Mobile Internet Apps, which was promulgated on June 14, 2022 and came into effect on August 1, 2022, the term “information services of Apps” means the activities of providing users with production, copying, publishing, spreading and other services of text, picture, voice, video and other information through Apps, including instant messaging, news, knowledge Q&A, forums, online live broadcast, e-commerce, online audio and video, life services and other types. In addition, Apps providers shall not use Apps to carry out activities prohibited by laws and regulations, such as those endangering national security, disrupting social order, and infringing upon the legitimate rights and interests of others. An App provider providing internet information services that must be subject to examination and approval of the competent authority or have obtained relevant permit in accordance with the law may only provide services upon examination and approval of the competent authority or with the relevant permit.

On July 21, 2023, the MIIT issued the Circular of the Ministry of Industry and Information Technology on the Record-filing of Mobile Internet Applications. According to such circular, all Apps shall complete filings with the provincial communications administration of the place where the operator is located. For all Apps that began to operate before July 21, 2023, the filing shall be completed by March 2024, and for all Apps that began to operate after July 21, 2023, the filing shall be completed before the Apps’ operation. Upon receipt of the filing materials submitted by any App operator, the provincial communications administration shall process the filing within 20 working days by issuing a filing number and disclosing the filing information to the public, provided that the materials are complete and accurate; otherwise, the filing shall not be processed. If the APP information is changed or deregistered, the APP operator shall report for such change or withdrawal with the original filing authority.

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, Beijing Xuncheng, Beijing Bilin Dongfang Education Technology Co. Ltd., Leci Network Technology (Beijing) Co., Ltd. and Beijing Siku Yunshu Software Technology Co., Ltd. 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 operation 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, publication 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 Operation 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 Operation 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. In addition, according to the Q&A posted on the website of Ministry of Culture and Tourism of the PRC (the “Q&A”), if the main content of the livestreaming activities features on sale of goods, such livestreaming activities do not fall within the scope of internet culture activities, no Internet Culture Operation License is required. Based on the Q&A, since our livestreaming e-commerce business through East Buy is for providing the sale of agricultural and other products, we are not required to obtain the Internet Culture Operation License for our livestreaming e-commerce business. However, given the potential changes in the interpretation and application of existing PRC laws and regulations, we may be required to obtain the Internet Culture Operation License for our business operations in the future.

Regulations Related to 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 business falls within such definition.

Regulations 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 business falls within the definition of “Audio-visual Programs” and whether we are required to obtain the License for Online Transmission of Audio-Visual Programs.

Regulations Related to Privacy, Data Protection and Cybersecurity

Pursuant to the PRC Cybersecurity 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 Cybersecurity 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. On September 14, 2022, the CAC published the Decision of Amending PRC Cybersecurity Law (Draft for Comments), or the Draft Amendment to PRC Cybersecurity Law, which, among other things, aggravated legal liabilities for violations of cybersecurity obligations and critical information infrastructure operators’ obligations. As of the date of this annual report, the Draft Amendment to PRC Cybersecurity Law was released for public comment only, and its respective provisions and anticipated adoption or effective date may be subject to change with substantial uncertainty.

The Office of the Central Cyberspace Affairs Commission, the MIIT, the MPS, and the SAMR jointly issued an Announcement of Launching Special Crackdown Against Illegal Collection and Use of Personal Information by Apps on January 23, 2019 to implement special rectification works against mobile Apps that collect and use personal information in violation of applicable laws and regulations, where business operators are prohibited from collecting personal information irrelevant to their services, or forcing users to give authorization in a disguised manner. On November 28, 2019, the National Internet Information Office, the MIIT, the MPS and the SAMR further jointly issued a notice to classify and identify illegal collection and use of personal information.

On August 22, 2019, the Office of the Central Cyberspace Affairs Commission issued the Provisions on the Cyber Protection of Children’s Personal Information, which took effect on October 1, 2019. The Provisions on the Cyber Protection of Children’s Personal Information apply to the collection, storage, use, transfer and disclosure of the personal information of children under the age of fourteen via the internet. The Provisions on the Cyber Protection of Children’s Personal Information require that network operators shall establish special rules and user agreements for protection of personal information for children under the age of fourteen, inform their guardians in a noticeable and clear manner, and shall obtain the consent of their guardians. When obtaining the consent of their guardians, network operators shall explicitly disclose several matters, including, without limitation, the purpose, method and scope of collection, storage, use, transfer and disclosure of such personal information, and methods for correcting and deleting such personal information. Provisions on the Cyber Protection of Children’s Personal Information also require that when collecting, storing, using, transferring and disclosing such personal information, network operators shall comply with certain regulatory requirements, including, without limitation, that network operators shall designate specific personnel to take charge of the protection of such personal information and shall strictly grant information access authorization for their staff to such personal information under the principle of minimal authorization.

Pursuant to the Notice on Promulgation of the Rules on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications, which was promulgated by the CAC, the MIIT and certain other government authorities on March 12, 2021 and became effective on May 1, 2021, “necessary personal information” refers to the personal information necessary for ensuring the normal operation of an app’s basic functional services, without which the app cannot achieve its basic functional services. For learning and education App, the basic functional services are “online tutoring, online classes, etc.” and the necessary personal information is mobile phone numbers of registered users.

Further, the SAMR promulgated the Measures for the Supervision and Administration of Online Transactions, which became effective from May 1, 2021. The measures require that online transaction operators shall not force customers, whether or not in a disguised manner, to consent to the collection and use of information not directly related to their business activities by means of one-off general authorization, default authorization, bundling with other authorizations, or the suspension of installation and use. Otherwise, such online transaction operator may be subject to fines and consequences under related laws and regulations, including without limitation suspension of business for rectification and revocation of permits and licenses.

On June 10, 2021, the Standing Committee of the National People’s Congress promulgated the PRC Data Security Law of the PRC, which came into effect on September 1, 2021. The PRC Data Security Law provides for data security and privacy obligations on entities and individuals carrying out data activities. The PRC Data Security Law also introduces a data classification and hierarchical protection system based on the importance of data in economic and social development, as well as the degree of harm it will cause to national security, public interests, or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked, or illegally acquired or used. The appropriate level of protection measures is required to be taken for each respective category of data. For example, a processor of important data shall designate the personnel and the management body responsible for data security, carry out risk assessments for its data processing activities and file the risk assessment reports with the competent authorities. In addition, the PRC Data Security Law provides a national security review procedure for those data activities which may affect national security and imposes export restrictions on certain data and information. No entity or individual within the territory of the PRC may provide foreign judicial or law enforcement authorities with the data stored within the territory of the PRC without the approval of the competent PRC authorities.

On August 17, 2021, the State Council promulgated the Regulations on the Security Protection of Critical Information Infrastructure, which came into effect on September 1, 2021. The regulations provide that, among others, critical information infrastructure, or the CIIO, means key network facilities or information systems of critical industries or sectors, such as public communication and information service, energy, transportation, water conservation, finance, public services, e-government affairs and national defense science, the damage, malfunction or data leakage of which may endanger national security, people's livelihoods and the public interest. Operators shall, based on leveled system for cybersecurity protection, adopt technical protection measures and other necessary measures to deal with cybersecurity security events, defend against cyber-attack and criminal activities, ensure the safe and stable operation of CIIO, and maintain data integrity, confidentiality and availability pursuant to relevant laws, regulations and the mandatory requirements of national standards. Relevant governmental authorities of each critical industry and sector shall be responsible for formulating eligibility criteria and determining the scope of critical information infrastructure operator in the respective industry or sector and operators will be informed about the final determination as to whether they are categorized as critical information infrastructure operators.

On August 20, 2021, the SCNPC promulgated the Personal Information Protection Law, which took effect on November 1, 2021. The Personal Information Protection Law aims at protecting the personal information rights and interests, regulating the processing of personal information, ensuring the orderly and free flow of personal information in accordance with the law, and promoting the reasonable use of personal information. According to the Personal Information Protection Law, personal information includes all kinds of identified or identifiable information related to natural persons recorded by electronic or other means, but excludes de-identified information. The Personal Information Protection Law also specified the rules for handling sensitive personal information, which includes biometrics, religious beliefs, specific identities, medical health, financial accounts, trails and locations, and personal information of teenagers under fourteen years old and other personal information, which, upon leakage or illegal usage, may easily infringe the personal dignity or harm of safety of livelihood and property. Personal information handlers shall bear responsibility for their personal information handling activities, and adopt necessary measures to safeguard the security of the personal information they handle. Otherwise, the personal information handlers will be ordered for rectification or suspension or termination of provision of services, confiscation of illegal income, subject to fines or other penalties.

Furthermore, on November 14, 2021, the CAC published the Administrative Regulations on Internet Data Security (Draft for Comments), or the Draft Data Security Regulations, which provides that data processors refer to individuals or organizations that, during their data processing activities such as data collection, storage, utilization, transmission, publication and deletion, have autonomy over the purpose and the manner of data processing. In accordance with the Draft Data Security Regulations, data processors shall apply for a cybersecurity review for certain activities, including, among other things, (i) the listing abroad of data processors that process the personal information of more than one million individuals and (ii) any data processing activity that affects or may affect national security. In addition, the Draft Data Security Regulations requires that data processors that process "important data" or are listed overseas must conduct an annual data security assessment by itself or commission a data security service provider to do so, and submit the assessment report of the preceding year to the municipal cybersecurity department by the end of January each year. As of the date of this annual report, the Draft Data Security Regulations is published for public comments only and the final version and effective date of which are subject to change with substantial uncertainty.

On January 4, 2022, the CAC published the Revised Cybersecurity Review Measures, which became effective on February 15, 2022 and repeal the Cybersecurity Review Measures promulgated on April 13, 2020. The Revised Cybersecurity Review Measures provide that a critical information infrastructure operator purchasing network products and services, and network platform operators engaging in data processing activities that affect or may affect national security, which affect or may affect national security, shall apply for cybersecurity review and that network platform operators that hold personal information of over one million users shall apply with the Cybersecurity Review Office for a cybersecurity review before any public offering at a foreign stock exchange.

On January 4, 2022, the CAC published the Administrative Provisions on Internet Information Service Algorithm Recommendation on its website, or the Algorithm Recommendation Provisions, which became effective on March 1, 2022 and raise certain new compliance requirements on internet information service providers using algorithm recommendation technology. Specifically, the Algorithm Recommendation Provisions require that such service providers shall provide users with options that are not specific to their personal characteristics, or provide users with convenient options to cancel algorithmic recommendation services.

On July 7, 2022, the CAC issued the Measures on Security Assessment of the Cross-border Transfer of Data, with effective from September 1, 2022. The measures provide that four types of cross-border transfers of critical data or personal data generated from or collected in the PRC should be subject to a security assessment, which include: (i) a data processor to transfer important data overseas; (ii) either a critical information infrastructure operator, or a data processor processing personal information of more than 1 million individuals, transfers personal information overseas; (iii) a data processor who has, since January 1 of the previous year, transferred personal information of more than 100,000 individuals overseas cumulatively, or transferred sensitive personal information of more than 10,000 individuals overseas cumulatively; or (iv) other circumstances under which security assessment of data cross-border transfer is required as prescribed by the national cyberspace administration.

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 November 29, 2020. 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.

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 and Beijing Xuncheng engaged in the wholesale and retail distribution of books, periodicals and audio-visual products 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 and Beijing Xuncheng engaged in the wholesale and retail distribution of books, periodicals and audio-visual products 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.

Under the Administrative Provisions on Online Publishing Services, or the Online Publishing Provisions, which was jointly issued by the SAPPRFT (currently reformed into the State Administration of Press and Publication (National Copyright Bureau) under the Propaganda Department of the Central Committee of the Communist Party of China) and the MIIT, any entity providing online publishing services shall obtain an Online Publishing License. “Online publishing services” refer to the provision of online publications to the public through information networks; and “online publications” refer to digital works with publishing features such as having been edited, produced or processed and are available to the public through information networks, including: (i) written works, pictures, maps, games, cartoons, audio/video reading materials and other original digital works containing useful knowledge or ideas in the field of literature, art, science or other fields; (ii) digital works of which the content is identical to that of any published book, newspaper, periodical, audio/video product, electronic publication or the like; (iii) network literature databases or other digital works, derived from any of the aforesaid works by selection, arrangement, collection or other means; and (iv) other types of digital works as may be determined by the SAPPRFT. The online distribution of content, including our course materials, may be regarded as an “online publishing service” and we may be required to obtain an Online Publishing License. If the government authorities deem printing and providing physical learning materials to users as “publishing” or “publication distribution,” we may be required to obtain a Permit for Operating Publications. In addition, it remains uncertain whether the PRC government authorities would issue more explicit interpretation and rules or promulgate new laws and regulations. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—If we fail to obtain and maintain the licenses and approvals required for online business in China, our business, financial condition and results of operations may be materially and adversely affected.”

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 November 29, 2020, 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.

On September 2, 2021, the NDRC, the MOE and the SAMR jointly promulgated a Circular on Strengthening the Supervision over Fees for After-School Tutoring on Academic Subjects in Compulsory Education Stage, which provides that fees charged for online and offline after-school tutoring on academic subjects in compulsory education are subject to government-guided prices determined by local education administrations. The circular further provides that by the end of June each year, after-school institutions shall file with the local education administration, development and reform administration and market regulation administration the enrollment brochures, fee standards, teacher qualifications and other materials, along with incomes, costs, profits, related-party transactions and policy implementation information for the previous year.

On March 14, 2023, the General Office of MOE jointly with other four authorities issued the Administrative Measures for the Financial Management of After-School Tutoring Institutions, which provides that, among others, (1) tutoring pre-paid fees (including collected in cash) shall be deposited into such institution's special accounts and shall be separated from its own funds. Tutoring fees shall not be collected in such institution's other accounts or any third party's accounts; (2) after-school tutoring institutions shall not accept any tutoring fees paid by means of tutoring loans; (3) after-school tutoring institutions shall use the contract template jointly stipulated by General Office of MOE and the SAMR for the after-school tutoring service, and clearly specify the tutoring fees, refund arrangement and dispute resolutions. After-school tutoring institutions shall offer refunds for any remaining classes in a course to students who withdraw from the course in a timely manner.

Regulations Relating to Advertising and Promotion

The principal regulations governing advertising businesses in China are the PRC Advertising Law and the Advertising Administrative Regulations. These laws, rules and regulations require companies that engage in advertising activities to obtain a business license that explicitly includes advertising in the business scope from the SAMR or its local branches.

Applicable PRC advertising laws, rules and regulations contain certain prohibitions on the content of advertisements in China (including prohibitions on misleading content, superlative wording, socially destabilizing content or content involving obscenities, superstition, violence, discrimination or infringement of the public interest). Education and/or training advertisements shall not contain the following content: (i) explicit or implicit guarantee for successful enrolment to a higher grade, passing an examination, obtaining a certain degree or qualification or obtaining a certificate, or the effect of education or training; (ii) explicit or implicit expression of participation by the relevant examination body or its personnel, personnel setting examination questions in the education or training; and (iii) recommendation and/or endorsement by scientific research institutes, academic institutions, educational organizations, industry associations, professionals or beneficiaries using their name or image. In addition, advertisements shall accurately describe the product information, including its function, composition, price, use, origin, quality and other information, and shall not deceive or mislead customers. PRC advertising laws and regulations also impose prohibitions and restrictions on advertisements. For instance, superlative wordings such as "the best," "the most" are prohibited from use in advertisements.

Advertisers, advertising operators and advertising distributors are required by applicable PRC advertising laws, rules and regulations to ensure that the content of the advertisements they prepare or distribute is true and in compliance with applicable laws, rules and regulations. Violation of these laws, rules and regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In circumstances involving serious violations, the SAMR or its local branches may revoke the violator's license or permit for advertising business operations. In addition, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe the legal rights and interests of third parties, such as infringement of intellectual proprietary rights, unauthorized use of a name or portrait and defamation.

In addition, the Anti-Unfair Competition Law promulgated by the SCNPC requires that business operators shall not make false or misleading commercial promotion for the performance, functions, quality, sales, user evaluation, accolades etc. as to defraud or mislead customers.

The PRC Consumer Protection Law sets out requirements for business operators in their dealings with consumers, including (i) business operators shall ensure the compliance of goods and services with the PRC Product Quality Law and other relevant laws and regulations, and provide accurate information regarding goods, services and the quality and usage of such goods and services to consumers; (ii) business operators shall issue receipts to consumers in accordance with relevant national regulations and business practices or upon customer request, and ensure the quality and function of goods or services are consistent with advertising materials, product descriptions or samples; and (iii) business operators are required to assume the responsibility to repair, replace, return products in accordance with regulations or agreement, and it is prohibited to set out unreasonable or unfair terms for consumers.

Regulations Relating to Food Safety

According to the Administrative Measures for Food Operation License, entities or individuals involved in food operation and catering service in the PRC shall obtain the food operation license. Applications of food operation license shall be filed according to such food operator's operating types.

According to the PRC Food Safety Law and its implementation regulations, food producers and business operators shall ensure food safety, accept social supervision and assume social obligations in compliance with laws, regulations and food safety standards. The PRC Food Safety Law regulates not only food production and processing, food sales and catering service, but also the use of food additives, food-related products, food storage and transportation by food producers and operators. As stipulated in the PRC Food Safety Law, the quality and safety management of agricultural primary products supplied for food shall be subject to requirements of the PRC Quality and Safety of Agricultural Products Law. However, the market sales of edible agricultural products, establishment of relevant quality safety standards, disclosure in relation to safety information and where required by the PRC Food Safety Law on agricultural inputs, shall be in compliance with the Food Safety Law.

Regulations Relating to Product Quality

According to the PRC Product Quality Law, producers shall assume responsibilities for the product quality produced by them, sellers shall adopt measures to maintain the quality of products for sale, and enterprises may not produce or sell counterfeit products. In additions, any violations of state or industrial standards for health and safety and any other related violations may result in civil liabilities and administrative penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced and sold and the proceeds therefrom. Severe violations may subject the responsible individual or enterprise to criminal liabilities. Where a defective product causes personal injury or damage to another person's property, such person may claim compensation from the producer or seller of the product.

Regulations Relating to Online Livestreaming and Online Sales

On July 12, 2017, the CAC issued a Notice on Development of the Filing Work for Enterprises Providing Internet Live-Streaming Services, which provides that all the companies providing internet live-streaming services shall file with the local authority, otherwise the CAC or its local counterparts may impose administrative sanctions on such companies. Pursuant to the Circular on Tightening the Administration of Internet Live-Streaming Services jointly issued by the MIIT, the Ministry of Culture and Tourism, or the MOCT, and several other government agencies on August 1, 2018, livestreaming services providers are required to file with the local public security authority within 30 days after it commences the service online. Pursuant to the Online Trading Supervision and Management Measures promulgated by the SAMR on March 15, 2021, and effective from May 1, 2021, online trading operators shall follow the principles of legality, propriety and necessity when collecting and using consumers' personal information, and shall specifically notify consumers about the purpose, method and scope of the collection and use of such information and obtain the consumers' consent. Online trading operators who collect and use consumers' personal information should announce their policies on collection and use of such information and should not collect and use the information in breach of laws and regulations and the agreement between the parties. Online trading operators shall fully, truly, accurately and timely disclose commodity or service information to protect consumers' right to know and choose. Online trading platform operators shall require business operators applying for access to the platform for sale of goods or provision of services to provide their identities, addresses, contact information, administrative licenses and other true information for verification and registration, establish registration files, and verify and update the same at least once every six months, and online trading platform operators shall submit certain identity information of the business operators using the platform to the provincial market regulatory authority at its domicile in January and July each year, respectively. According to the Regulations on the Administration of Commercial Performances promulgated by the State Council on November 29, 2020, performance groups engaged in commercial performance activities and performance agencies engaged in commercial performance operation activities are required to obtain Commercial Performance Permit. Pursuant to the Guiding Opinions on Strengthening the Regulation and Administration of Online Livestreaming, a livestreaming platform engaging in commercial online performances shall hold the Internet Culture Operation License. According to the Q&A posted on the website of Ministry of Culture and Tourism of the PRC (the "Q&A"), if the main content of the livestreaming activities features on sale of goods, such livestreaming activities do not fall within the scope of internet culture activities, no Internet Culture Operation License is required. Based on the Q&A, since our livestreaming e-commerce business through East Buy is for providing the sale of agricultural and other products, we are not required to obtain the Internet Culture Operation License for our livestreaming e-commerce business. However, given the potential changes in the interpretation and application of existing PRC laws and regulations, we may be required to obtain the Internet Culture Operation License for our business operations in the future.

The E-Commerce Law of the PRC requires e-commerce operators to follow the principles of voluntariness, equality, fairness and integrity, and to abide by laws and business ethics to participate in market competition in a fair manner. An operator of an e-commerce platform shall neither take advantage of the service agreement, transaction rules, technologies or other means to impose unreasonable restrictions or unreasonable conditions on the transactions of business operators using its platform carried out on its platform, the transaction price and transactions with other business operators, nor charge business operators using its platform unreasonable fees.

According to the Online Livestreaming Service Administrative Measures, it is prohibited to publish information that endanger national security or infringe third-party rights. In addition, the Trial Administrative Measures for Online Livestreaming Sales and Marketing issued on April 23, 2021 and effective from May 25, 2021 stipulate that, among others, online livestreaming channel operators have the obligation to ensure the information provided are genuine and complies with laws, and such online livestreaming channel operators shall also check and record information regarding the products and suppliers.

Regulations Relating to Anti-Monopoly

The Anti-Monopoly Law promulgated by the Standing Committee of the National People's Congress and the Interim Provisions on the Review of Concentrations of Undertakings promulgated by the SAMR require that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the SAMR before they can be completed. Where the participation in concentration of undertakings by way of foreign-funded merger and acquisition of domestic enterprises or any other method which involves national security, the examination of concentration of undertakings shall be carried out pursuant to the provisions of the Anti-Monopoly Law and examination of national security shall be carried out pursuant to the relevant laws and regulations. Failure to comply with above regulations may result in an order to stop concentration, dispose the shares/assets or transfer the operation within a stipulated period, or adopt other necessary measures to reinstate the pre-concentration status, or fines.

On February 7, 2021, the Anti-monopoly Commission of the State Council issued the Anti-monopoly Guidelines for the Internet Platform Economy Sector that aims at specifying some of the circumstances under which an activity of internet platforms may be identified as monopolistic act as well as classifying that concentrations involving variable interest entities shall also be subject to anti-monopoly review.

Regulations Relating to Anti Long-Arm Jurisdiction

The MOFCOM issued Provisions on the List of Unreliable Entities, or the MOFCOM Order No. 4 of 2020, on September 19, 2020. Pursuant to the MOFCOM Order No. 4 of 2020, the relevant governmental authorities shall, according to the investigation results and by taking the following factors into comprehensive consideration, decide whether or not to include a foreign entity concerned in the list of unreliable entities, and make an announcement on such inclusion. Such factors include: (i) the extent of damage caused to China's sovereignty, security and development interests; (ii) the extent of the damage to the legitimate rights and interests of Chinese enterprises, other organizations or individuals; (iii) whether or not the international economic and trade rules are followed; (iv) other factors that shall be taken into consideration. If a foreign entity is included in the list of unreliable entities, the working mechanism may decide to take one or more of the following measures: (i) restricting or prohibiting the foreign entity from engaging in import or export activities related to China; (ii) restricting or prohibiting the foreign entity's investment within the territory of China; (iii) restricting or prohibiting the entry of the foreign entity's relevant personnel or transport vehicles into the territory of China; (iv) restricting or cancelling the work permit, stay or residence qualification of the foreign entity's relevant personnel in China; (v) imposing a fine corresponding to the seriousness of the case against the foreign entity; and/or (vi) other necessary measures.

On January 9, 2021, the MOFCOM promulgated the Rules on Counteracting Unjustified Extra-Territorial Application of Foreign Legislation and Other Measures, or the MOFCOM Order No. 1 of 2021. Pursuant to the MOFCOM Order No. 1 of 2021, where a citizen, legal person or other organization of China is prohibited or restricted by foreign legislation and other measures from engaging in normal economic, trade and related activities with another country (or region) or its citizens, legal persons or other organizations, he/she/it shall truthfully report such matters to the competent department of commerce of the State Council within 30 days. The working mechanism will take following factors into overall account when assessing whether there exists unjustified extraterritorial application of foreign legislation and other measures: (i) whether international law or the basic principles of international relations are violated; (ii) potential impact on China's national sovereignty, security and development interests; (iii) potential impact on the legitimate rights and interests of the citizens, legal persons or other organizations of China; (iv) other factors that shall be taken into account. If the working mechanism determines that there exists unjustified extra-territorial application of foreign legislation and other measures, MOFCOM may issue an injunction providing that the relevant foreign legislation and other measures shall not be accepted, executed, or observed. A citizen, legal person or other organization in China may apply for exemption from compliance with an injunction.

Regulations Relating to Foreign Investment

Foreign Investment Access Special Management Measures (Negative List) (2021 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 2021 Negative List, which was promulgated by the Ministry of Commerce and National Development and Reform Commission in December 2021 and came into effect in January 2022. The 2021 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 2021 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 2021 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 2021 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.

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 2021 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 2021 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 2021 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 2021 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 March 29, 2022, 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. Moreover, foreign investors 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 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 “新东方,” “泡泡,” and “泡泡” 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, “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. According to the Circular of SAFE on Optimizing Foreign Exchange Administration to Support the Development of Foreign-related Business promulgated and effective on April 10, 2020 by the SAFE, the reform of facilitating the payments of income under the capital accounts shall be promoted nationwide. Under the prerequisite of ensuring true and compliant use of funds and compliance and complying with the prevailing administrative provisions on use of income from capital projects, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc., for domestic payment, without the need to provide proof materials for veracity to the bank beforehand for each transaction.

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.

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 and Overseas Listing

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.

On February 17, 2023, with the approval of the State Council, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Overseas Listing Trial Measures, and five supporting guidelines, which came into effect on March 31, 2023. According to the Overseas Listing Trial Measures, (1) domestic companies that seek to offer or list securities overseas, both directly and indirectly, should fulfill the filing procedure and report relevant information to the CSRC; (2) if the issuer meets both of the following conditions, the overseas offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (i) any of the total assets, net assets, revenues or profits of the domestic operating entities of the issuer in the most recent accounting year accounts for more than 50% of the corresponding figure in the issuer’s audited consolidated financial statements for the same period; (ii) its major operational activities are carried out in China or its main places of business are located in China, or the senior managers in charge of operation and management of the issuer are mostly Chinese citizens or are domiciled in China; and (3) where a domestic company seeks to indirectly offer and list securities in an overseas market, the issuer shall designate a major domestic operating entity responsible for all filing procedures with the CSRC, and where an issuer makes an application for initial public offering and listing in an overseas market, the issuer shall submit filings with the CSRC within three business days after such application is submitted.

On the same day, the CSRC held a press conference for the release of the Overseas Listing Trial Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies, which, among others, clarifies that (1) domestic companies that have been listed on a foreign stock exchange prior to the effective date of the Overseas Listing Trial Measures are not required to go through the filing procedure immediately but may be required to go through the filing procedure if future fund raising activities are involved; (2) a six-month transition period will be granted to domestic companies which, prior to the effective date of the Overseas Listing Trial Measures, have already obtained the approval from overseas regulatory authorities or stock exchanges (such as the completion of hearing in the market of Hong Kong or the completion of registration in the market of the United States), but have not completed the indirect overseas listing; if domestic companies fail to complete the overseas listing within such six-month transition period, they are required to file with the CSRC according to the requirements; and (3) the CSRC will solicit opinions from relevant regulatory authorities and complete the filing of the overseas listing of companies with contractual arrangements which duly meet the compliance requirements, and support the development and growth of these companies by enabling them to utilize two markets and two kinds of resources.

On February 24, 2023, the CSRC jointly with other government authorities issued the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies, or the Overseas Listing Archives Rules, as a supporting rule to the Overseas Listing Trial Measures, which came into effect on March 31, 2023. Pursuant to the Overseas Listing Archives Rules, domestic companies that seek to offer or list securities overseas directly or indirectly, and securities companies and securities related service providers providing services to such domestic companies shall establish confidentiality and archives administration system, adopt requisite measures to perform the responsibilities of confidentiality and archives administration, and shall not divulge state secrets and state agencies’ work secrets, or harm state and public interests. The Overseas Listing Archives Rules provide, among others, that before providing or disclosing any document or material which involve state secrets or state agencies’ work secrets, domestic companies shall apply to the competent government authorities for approval and file with the secrecy administration authorities for record.

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 BIT 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.

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
- 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 were exempted from January 1, 2020 to March 31, 2021.

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.

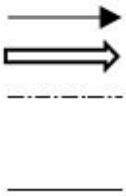
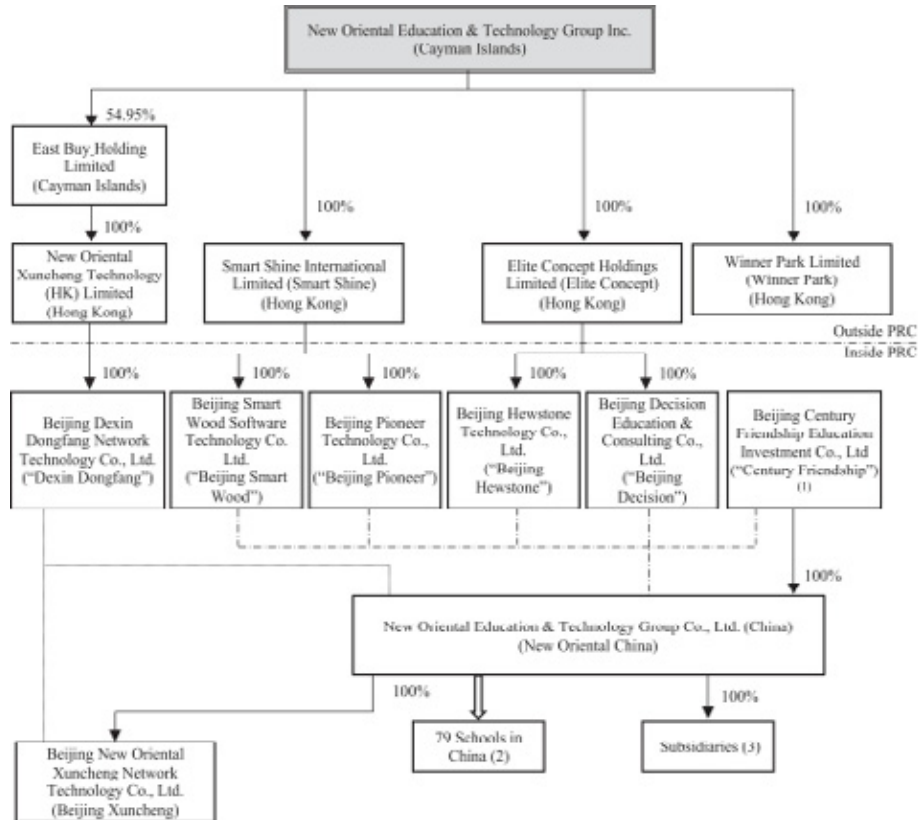
Further according to Circular 11, the non-sensitive projects carried out by the overseas enterprise directly controlled by PRC residents, including by means of making asset or equity investment by companies established for financing and investing, such as fund institutions, or providing financing or 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 US\$300 million shall be reported to the NDRC of relevant information by submitting an information reporting form for large-amount non-sensitive projects.

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

C. Organizational Structure

Except our e-commerce business and online education business that is operated by our majority-owned subsidiary, East Buy, 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 (the 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 chart illustrates our company’s organizational structure, including our significant subsidiaries and VIEs as of May 31, 2023:



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, power of attorney, exclusive management consultancy and cooperation agreement. 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. Zhihui Yang, our executive president and chief financial officer. In November 2019, Ms. Bamei Li, Mr. Yu's mother, completed the transfer of the equity interest in Century Friendship held by her to Mr. Michael Minhong Yu and Mr. Zhihui Yang, prior to such transfer, Century Friendship was 80% owned by Mr. Yu and 20% owned by Ms. Bamei Li.
- (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) Excluding Beijing Xuncheng and its subsidiaries, and consisting of various PRC companies operating our educational materials and distribution business, and overseas study consulting business in China.

PRC laws and regulations restrict and impose conditions on foreign direct investment in companies involved in the provision of educational and value-added telecommunication services. As a result, we conduct substantially all of our business in China through contractual arrangements between our wholly-owned subsidiaries in China, and the VIEs and their shareholders. In the fiscal years ended May 31, 2021, 2022 and 2023, the consolidated affiliated entities contributed in aggregate 99.9%, 99.6% and 99.5% of our total net revenues, respectively.

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

New Oriental China is a 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 business and have been directly conducting our business. We have been and are expected to continue to be dependent on New Oriental China and its schools and subsidiaries to operate our business until we qualify for direct ownership of our 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.

We are therefore considered the primary beneficiary of these entities, whose financial results are consolidated in New Oriental Education & Technology Group Co., Inc.'s consolidated financial statements under the U.S. GAAP for accounting purposes.

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 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.

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, 2021, 2022 and 2023, 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\$376.5 million, US\$280.8 million and US\$696.0 million, respectively. In accordance with the Amended Implementation Rules, the master exclusive service agreement was further amended and effective from September 1, 2021, to exclude Beijing Changping New Oriental Bilingual School and Beijing New Oriental Yangzhou Foreign Language School from such agreement.

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 East Buy, our majority-owned subsidiary, through a series of contractual arrangements. Beijing Dexin Dongfang Network Technology Co., Ltd., or Dexin Dongfang, a wholly-owned PRC subsidiary of East Buy, has entered into contractual arrangements with Beijing Xuncheng, its subsidiaries and then shareholders, which enables us, through East Buy, 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.

We are therefore considered the primary beneficiary of these entities, whose financial results are consolidated in New Oriental Education & Technology Group Co., Inc.'s consolidated financial statements under the U.S. GAAP for accounting purposes.

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 then shareholders, each of the then 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 then 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 then 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 then 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 then 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 then shareholders may transfer or permit to create any encumbrance, guarantee or security over its equity interests in Beijing Xuncheng. Beijing Xuncheng's then 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 then 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 then shareholder's behalf any and all rights the then shareholder has in respect of its equity interests in Beijing Xuncheng. The power of attorney will remain effective as long as the then 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 then 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 sole 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 East Buy 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.

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 East Buy, 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 addition, Beijing Xinyuanfang Human Resource Service Co., Ltd. and Dongfang Optimization (Beijing) Technology Co., Ltd., each as a subsidiary of Beijing Xuncheng, executed a letter of acceptance dated January 12, 2022 whereby each assumed the same rights and obligations as Beijing Xuncheng's subsidiary under the Exclusive Management Consultancy and Cooperation Agreement. Furthermore, Oriental Selection (Beijing) Technology Co., Ltd., a subsidiary of Dongfang Optimization (Beijing) Technology Co., Ltd. executed a letter of acceptance dated January 4, 2023 whereby it assumed the same rights and obligations as Beijing Xuncheng's subsidiary under the Exclusive Management Consultancy and Cooperation Agreement.

Second Supplemental Agreement. Pursuant to the second supplemental agreement dated February 1, 2021 entered into by and among Dexin Dongfang, Zhuhai Chongsheng, Xi'an Ruiying Huishi Network Technology Co., Ltd., or Xi'an Ruiying, Hainan Haiyue Dongfang Network Technology Co., Ltd., or Hainan Haiyue, Wuhan Dongfang Youbo Network Technology Co., Ltd., or Wuhan Dongfang, Beijing Xuncheng and its subsidiaries and all of its shareholders, Xi'an Ruiying, Hainan Haiyue and Wuhan Dongfang joined as parties to the contractual agreements between Dexin Dongfang, Beijing Xuncheng and its subsidiaries and then shareholders (including the Exclusive Option Agreement, Exclusive Management Consultancy and Cooperation Agreement, Equity Pledge Agreement, Letters of Undertaking and Powers of Attorney) and the supplemental agreement. Pursuant to the second supplemental agreement, Xi'an Ruiying, Hainan Haiyue and Wuhan Dongfang assumed the same rights and share the same obligations as Dexin Dongfang and Zhuhai Chongsheng under the contractual agreements and the supplemental agreement.

Third Supplemental Agreement. Dexin Dongfang, Zhuhai Chongsheng, Xi'an Ruiying, Hainan Haiyue, Wuhan Dongfang, Beijing Xuncheng and its subsidiaries and Beijing Xuncheng's then registered shareholders entered into a third supplemental agreement on May 24, 2023, pursuant to which, from the date which Linzhi Tencent Technology Co., Ltd. and the seven limited partnerships cease to be the shareholders of Beijing Xuncheng, Linzhi Tencent Technology Co., Ltd. and such seven limited partnerships shall cease to have any rights or obligations under the contractual agreements (including the Exclusive Option Agreement, Exclusive Management Consultancy and Cooperation Agreement, Equity Pledge Agreement, Letters of Undertaking and Powers of Attorney), the supplemental agreement and the second supplemental agreement; and from the same date, the New Oriental China shall act as the sole shareholder of Beijing Xuncheng, and each of Dexin Dongfang, Zhuhai Chongsheng, Xi'an Ruiying, Hainan Haiyue, Wuhan Dongfang, Beijing Xuncheng and its subsidiaries and New Oriental China shall continue to performance the contractual agreements, the supplemental agreement and the second supplemental agreement.

In May 2023, the seven limited partnerships and Linzhi Tencent Technology Co., Ltd., the former shareholders of Beijing Xuncheng, ceased to be the shareholders of Beijing Xuncheng by means of capital withdrawal. Beijing Xuncheng has become a wholly-owned subsidiary of New Oriental China since then.

In addition, on July 24, 2021, the General Office of State Council and the General Office of Central Committee of the Communist Party of China jointly promulgated the Alleviating Burden Opinion, which provides, among others, that (i) Academic AST Institutions are prohibited from raising funds by listing on stock markets or conducting any capitalization activities; (ii) foreign capital is prohibited from controlling or participating in any Academic AST Institutions through mergers and acquisitions, entrusted operation, joining franchise or variable interest entities; (iii) online tutoring for preschool-age children is prohibited, and offline academic subjects (including foreign language) tutoring services for preschool-age children is also strictly prohibited. The Alleviating Burden Opinion provides that any violation of the foregoing shall be rectified. The Alleviating Burden Opinion further states that the administration and supervision over academic subjects tutoring institutions for students on grade ten to twelve shall be implemented by reference to the relevant provisions of the Alleviating Burden Opinion. It remains uncertain as to how and to what extent the administration over academic subjects tutoring institutions for students on grade ten to twelve will be implemented by reference of the Alleviating Burden Opinion.

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

- (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 then 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 the interpretation and application of current and future PRC laws and regulations are subject to changes. 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/or the Amended Implementation Rules and determine that our for-profit and/or non-profit kindergartens shall be excluded from our company, we may be requested to unwind the contractual arrangements for some or all of our kindergartens. We have been further advised by our PRC legal counsel that if the PRC government finds that the agreements that establish the structure for operating our business in China do not comply with PRC regulatory restrictions on foreign investment in the 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 enforcement of laws, and changes in laws and regulations in China 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 and training center. In addition, we own an aggregate of approximately 56,000 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 over 50 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) 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. For example, on July 24, 2021, the General Office of State Council and the General Office of Central Committee of the Communist Party of China jointly promulgated the Alleviating Burden Opinion, which provides, among others, that (i) Academic AST Institutions are prohibited from raising funds by listing on stock markets or conducting any capitalization activities; (ii) foreign capital is prohibited from controlling or participating in any Academic AST Institutions through mergers and acquisitions, entrusted operation, joining franchise or variable interest entities; (iii) online tutoring for preschool-age children is prohibited, and offline academic subjects (including foreign language) tutoring services for preschool-age children is also strictly prohibited. The Alleviating Burden Opinion provides that any violation of the foregoing shall be rectified. The Alleviating Burden Opinion further states that the administration and supervision over academic subjects tutoring institutions for students on grade ten to twelve shall be implemented by reference to the relevant provisions of the Alleviating Burden Opinion. See “Item 4. Information on the Company—B. Business Overview—Regulation—Regulations on Private Education—Regulations on After-School Tutoring” for more details.

In line with the development of our livestreaming e-commerce business, our results of operations are also affected by the general factors affecting the livestreaming e-commerce industry, including the level of overall economic growth, increase in per capita disposable income and growth in consumer spending, the growing popularity of online shopping, improvements in logistics infrastructure, among others.

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 maintain and increase student enrollments both online and offline and offer a greater variety of courses, including those related to non-academic subjects. Our business changes may result in substantial demands on our management, operational, technological, financial and other resources. To manage and support our further development, 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 areas. We will continue to implement additional systems and measures and recruit qualified personnel in order to effectively manage and support our business. If we cannot achieve these improvements, our financial condition and results of operations may be materially adversely affected.

The results of operations of our livestreaming e-commerce business are more directly affected by certain company specific factors, including: our ability to attract and engage consumers and increase GMV on East Buy; our ability to develop high-quality and cost-effective private label products; our ability to enhance supply chain management capabilities, among others.

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 in 2020. 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.

China began to modify its zero-COVID policy at the end of 2022, and most of the travel restrictions and quarantine requirements were lifted in December. There were surges of cases in many cities during this time which caused disruption to our operations, and there remains uncertainty as to the future impact of the virus, especially in light of this change in policy. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are highly uncertain and unpredictable, including the frequency, duration and extent of outbreaks of COVID-19, the appearance of new variants with different characteristics, the success or failure of efforts to contain or treat cases, and future actions we or the authorities may take in response to these developments. The COVID-19 outbreak may affect our business operations and its financial condition and operating results for future years, including but not limited to negative impact to our total revenues, fair value adjustments or impairment to our long term investments and impairment of long-lived assets.

Selected Statements of Operations Items

Net Revenues. In the fiscal years ended May 31, 2021, 2022 and 2023, we generated total net revenues of US\$4,276.5 million, US\$3,105.2 million, and US\$2,997.8 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:

- net service revenues, which accounted for 98.9%, 98.2% and 84.9% of our total net revenues in the fiscal years ended May 31, 2021, 2022 and 2023, respectively; and
- net product revenues, which accounted for 1.1%, 1.8% and 15.1% of our total net revenues in the fiscal years ended May 31, 2021, 2022 and 2023, respectively.

Net Service Revenues. Our net service revenues consist of revenues from educational services and test preparation courses, commission revenue of livestreaming e-commerce business through East Buy, online education, overseas study consulting services and study tours, and other services. Revenues from educational services and test preparation courses accounted for 85.8%, 81.6% and 60.9%, respectively, of our total net revenues in the fiscal years ended May 31, 2021, 2022 and 2023.

We recognize revenues from course fees collected for enrollment in our educational services and test preparation 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 the commission revenue of livestreaming e-commerce business through East Buy at a point when the customer purchases the merchants' products through the e-commerce platforms.

In compliance with the Alleviating Burden Opinion and applicable rules, regulations and measures, we have ceased offering K-9 Academic AST Services in China since the end of 2021. Such cessation had a substantial adverse impact on our financial performance for the fiscal year ended May 31, 2022.

Net Product Revenues. Our net product revenues consist of revenues from the sale of East Buy private label products and the books and other educational materials developed or licensed by us. We recognize revenues from the sales of East Buy private label products when control of the promised goods is transferred to the customer, in an amount that reflects the consideration we expect to be entitled to in exchange for the goods. 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.

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,					
	2021		2022		2023	
	US\$	%	US\$	%	US\$	%
Net revenues	4,276,539	100.0	3,105,246	100.0	2,997,760	100.0
Operating cost and expenses:						
Cost of revenues	(2,036,875)	(47.6)	(1,754,291)	(56.5)	(1,409,438)	(47.0)
Selling and marketing	(600,778)	(14.0)	(466,895)	(15.0)	(444,693)	(14.8)
General and administrative	(1,489,826)	(34.8)	(1,866,573)	(60.1)	(953,583)	(31.8)
Impairment loss on intangible assets and goodwill	(31,794)	(0.7)	—	—	—	—
Total operating cost and expenses	(4,159,273)	(97.3)	(4,087,759)	(131.6)	(2,807,714)	(93.6)

Cost of Revenues. Cost of revenues for educational services and test preparation courses 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 revenues for private label products and livestreaming e-commerce and other services primarily consists of labor cost and procurement cost of goods.

Cost of books and other educational 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.

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.

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 impairment of property and equipment and other long-lived assets used in our general and administrative activities.

Share-based Compensation Expenses

In January 2016, we adopted the 2016 Share Incentive Plan, under which we are authorized to issue up to 100,000,000 common shares (taking into account the one-for-ten share split that took effect on March 10, 2021) 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 71,681,298 non-vested equity shares, among which, nil and 20,759,130 were granted in the fiscal years ended May 31, 2022 and 2023, respectively, 1,536,112 and 1,324,092 shares were forfeited in the fiscal years ended May 31, 2022 and 2023, respectively.

On July 13, 2018, the board of directors of East Buy approved an employee's share option plan, or the East Buy Pre-IPO Share Option Scheme, under which East Buy is authorized to issue up to 47,836,985 shares in East Buy pursuant to awards granted to any director, employee, contractor or affiliate of East Buy (including nominees and/or trustees of any employee benefit trusts established for them). As of May 31, 2023, options to obtain an aggregate of 27,084,385 shares in East Buy remained outstanding under the East Buy Pre-IPO Share Option Scheme. No options were forfeited and no shares were cancelled in the fiscal year ended May 31, 2023.

On January 30, 2019, the board of directors of East Buy approved an employee's share option plan, or the East Buy Post-IPO Share Option Scheme, under which East Buy is authorized to issue up to 91,395,910 shares in East Buy pursuant to awards granted to, among others, directors, employees of East Buy or its affiliate. As of May 31, 2023, options to obtain an aggregate of 40,462,810 shares in East Buy remained outstanding under the East Buy Post-IPO Share Option Scheme. Options to obtain 1,216,275 shares in East Buy shares were either forfeited or cancelled in the fiscal year ended May 31, 2023. The East Buy Post-IPO Share Option Scheme was terminated following the effectiveness of the East Buy 2023 Scheme (as defined below) in March 2023, provided that any granted and unexercised options made under the Post-IPO Share Option Scheme immediately before the termination shall continue to be valid and exercisable in accordance with the terms of the grant and original Post-IPO Share Option Scheme rules.

On March 9, 2023, the shareholders of East Buy approved an employee's share incentive scheme, or the East Buy 2023 Scheme, under which East Buy is authorized to issue up to 101,351,871 shares in East Buy pursuant to awards granted to, among others, directors, employees of East Buy or its affiliate. As of May 31, 2023, awards to obtain an aggregate of 30,314,000 shares in East Buy remained outstanding under the East Buy 2023 Scheme. Awards to obtain 145,000 shares in East Buy shares were either forfeited or cancelled in the fiscal year ended May 31, 2023.

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 East Buy'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,					
	2021		2022		2023	
	US\$	%	US\$	%	US\$	%
Allocation of Share-based Compensation Expense:						
Cost of revenues	6,698	9.7	(131)	(0.1)	2,749	3.1
Selling and marketing	6,922	10.1	(2,437)	(1.8)	5,750	6.4
General and administrative	55,260	80.2	135,536	101.9	81,289	90.5
Total	68,880	100.0	132,968	100.0	89,788	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 a high and new technology enterprise (“HNTE”) are subject to a tax rate of 15%. Although Xuncheng’s HNTE certificate is expected to be terminated on October 21, 2023, Beijing Hewstone, Beijing Decision, Dexin Dongfang and Beijing Be-linked Online Education Company Limited’s HNTE certificates are expected to be terminated on December 2, 2023, these enterprises are not subject to a tax rate of 15% starting from January 1, 2023, if they choose not to renew their certificates. Currently, these enterprises are in process of renewing their qualification of HNTE. Once their renewals are completed, these enterprises will be eligible for a favorable EIT rate of 15% starting January 1, 2023 again. Beijing Jinghong Software Technology Company Ltd., Beijing Shenghe Technology Company Ltd., Beijing Pioneer, Beijing Smart Wood, Beijing SFK Education Consulting Co., Ltd., Beijing Bright Future Education&Technology Company Limited and Dongfang Huijiao (Beijing) Technology Co., Ltd. continued to qualify as HNTE and were subject to a tax rate of 15% for the year ended May 31, 2023.

Hainan Dongfang Zhixin Technology Company Limited, Zhuhai Zekai Software Technology Company Limited, Zhuhai Chongshengheli Network Technology Co., Ltd and Tibet Tianli enjoyed the EIT tax rate of 15% because of the preferential corporate income tax policies for local tax concessions.

Enterprises that qualify as the newly established software enterprise (“NESE”) are exempt from the 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 Zhiyuan Hangcheng Software Technology Company Limited and Beijing Chuangying Oriental Technology Co., Ltd are qualified as NESE and enjoy the EIT tax benefit from January 2019 to December 2023. After expiration, the tax rate will return to normal statutory rate.

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. 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, and after-school tutoring institutions providing tutoring services on academic subjects can only be registered as non-profit private schools under the Alleviating Burden Opinion. 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, 2023, 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, 2023.

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.”

If our holding company in the Cayman Islands or any of our subsidiaries outside of mainland China were deemed to be a “resident enterprise” under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. 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.”

Recent Acquisitions

During the year ended May 31, 2023, we made several business acquisitions. The total cash consideration of these business acquisitions was US\$42.1 million, in which US\$32.4 million had been paid during the year ended May 31, 2023.

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.

(in thousands of US\$ except share and per share data)	For the Years Ended May 31,		
	2021	2022	2023
Net revenues:			
Net service revenues	4,230,638	3,050,022	2,544,729
Net product revenues	45,901	55,224	453,031
Total net revenues	4,276,539	3,105,246	2,997,760
Operating cost and expenses:⁽¹⁾			
Cost of revenues	(2,036,875)	(1,754,291)	(1,409,438)
Selling and marketing	(600,778)	(466,895)	(444,693)
General and administrative	(1,489,826)	(1,866,573)	(953,583)
Impairment loss on intangible assets and goodwill	(31,794)	—	—
Total operating cost and expenses	(4,159,273)	(4,087,759)	(2,807,714)
Operating income/(loss)	117,266	(982,513)	190,046
Interest income	141,511	123,542	114,453
Interest expense	(6,747)	(4,050)	(707)
Realized gain from long-term investments	3,535	22,004	767
Impairment loss from long-term investments	(40,207)	(129,350)	(8,056)
Loss from fair value change of long-term investments	(3,824)	(14,933)	(860)
Loss from deconsolidation of subsidiaries	—	(79,609)	—
Miscellaneous income, net	103,443	32,411	12,888
Provision for income taxes:			
Current	(127,313)	(44,378)	(97,594)
Deferred	43,725	(91,934)	31,528
Provision for income taxes	(83,588)	(136,312)	(66,066)
Loss from equity method investments	(1,368)	(51,466)	(7,102)
Net income/(loss)	230,021	(1,220,276)	235,363
Less: Net (loss)/income attributable to non-controlling interests	(104,393)	(32,555)	58,022
Net income/(loss) attributable to New Oriental Education & Technology Group Inc.'s shareholders	334,414	(1,187,721)	177,341
Net income/(loss) per common share attributable to shareholders of New Oriental Education & Technology Group Inc. ⁽²⁾			
-Basic	0.20	(0.70)	0.11
-Diluted	0.20	(0.70)	0.10
Weighted average shares used in calculating basic net income/(loss) per common share	1,645,463,440	1,696,419,232	1,678,264,547
Weighted average shares used in calculating diluted net income/(loss) per common share	1,651,982,384	1,696,419,232	1,685,631,987

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

(in thousands of US\$)	For the Years Ended May 31,		
	2021	2022	2023
Cost of revenues	6,698	(131)	2,749
Selling and marketing	6,922	(2,437)	5,750
General and administrative	55,260	135,536	81,289
Total	68,880	132,968	89,788

(2) Each ADS represents ten common shares. For the year ended May 31, 2021, the number of shares used in calculating basic and diluted net income per common share have been retrospectively adjusted to reflect the ADS ratio change from one ADS representing one common share to one ADS representing ten common shares, which became effective on April 8, 2022.

Fiscal Year Ended May 31, 2023 Compared to Fiscal Year Ended May 31, 2022

Net Revenues. Our total net revenues decreased by 3.5% from US\$3,105.2 million for the fiscal year ended May 31, 2022 to US\$2,997.8 million for the fiscal year ended May 31, 2023. This decrease was due to cessation of K-9 Academic AST services since the end of 2021 to be in compliance with applicable regulations, rules and policies in China, partially offset by the increase in net revenues from our new educational business initiatives and East Buy private label products and livestreaming e-commerce business.

- ***Net Service Revenues.*** Our net service revenues decreased by 16.6% from US\$3,050.0 million for the fiscal year ended May 31, 2022 to US\$2,544.7 million for the fiscal year ended May 31, 2023. This decrease was primarily due to the decrease in revenues from educational services and test preparation courses from US\$2,535.3 million in the fiscal year ended May 31, 2022 to US\$1,825.2 million in the fiscal year ended May 31, 2023 mainly as a result of the cessation of K-9 Academic AST services, partially offset by the increase in net revenues from our new educational business initiatives, such as our non-academic tutoring courses and intelligent learning system and devices.
- ***Net Product Revenues.*** Net product revenues increased by 720.3% from US\$55.2 million in the fiscal year ended May 31, 2022 to US\$453.0 million in the fiscal year ended May 31, 2023, primarily due to the significant increase in the sales of East Buy private label products through our livestreaming e-commerce platform in the fiscal year ended May 31, 2023.

Operating Cost and Expenses. Our total operating cost and expenses decreased by 31.3% from US\$4,087.8 million in the fiscal year ended May 31, 2022 to US\$2,807.7 million in the fiscal year ended May 31, 2023. This decrease resulted from decreases in each of our cost of revenues, selling and marketing expenses, general and administrative expenses. 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 85 and 663, respectively, as of May 31, 2023, compared to 107 and 637, respectively, as of May 31, 2022. We employed approximately 26,300 and 26,600 teachers as of May 31, 2022 and 2023, respectively.

- ***Cost of Revenues.*** Our cost of revenues decreased by 19.7% from US\$1,754.3 million in the fiscal year ended May 31, 2022 to US\$1,409.4 million in the fiscal year ended May 31, 2023. This decrease was in line with the decrease in revenues and primarily due to the cessation of K-9 Academic AST services since the end of 2021, partially offset by the increase in the cost of revenues for the private label products and livestreaming e-commerce business in the fiscal year ended May 31, 2023.
- ***Selling and Marketing Expenses.*** Our selling and marketing expenses decreased by 4.8% from US\$466.9 million in the fiscal year ended May 31, 2022 to US\$ 444.7 million in the fiscal year ended May 31, 2023. This decrease was primarily due to the decreased human resources expenses and administrative expenses incurred in the fiscal year ended May 31, 2023.
- ***General and Administrative Expenses.*** Our general and administrative expenses decreased by 48.9% from US\$1,866.6 million in the fiscal year ended May 31, 2022 to US\$ 953.6 million in the fiscal year ended May 31, 2023. This decrease was primarily due to the enhanced efficiency in human resource management and the downsize in daily operating expenses as we downsized learning centers due to cessation of K-9 Academic AST services in the fiscal year ended May 31, 2022.

Other Income/Loss, Net. Compared to net other loss of US\$50.0 million in the fiscal year ended May 31, 2022, we had net other income of US\$118.5 million in the fiscal year ended May 31, 2023, primarily as a result of the US\$114.5 million of interest income.

Provision for Income Tax. Our income tax expense decreased by 51.5% from US\$136.3 million in the fiscal year ended May 31, 2022 to US\$66.1 million in the fiscal year ended May 31, 2023. The decrease was primarily due to increase in current income tax expenses and the recognition of deferred tax assets.

Net Income. As a result of the foregoing, our net income for the fiscal year ended May 31, 2023 was US\$235.4 million, compared to net loss of US\$1,220.3 million for the fiscal year ended May 31, 2022.

Fiscal Year Ended May 31, 2022 Compared to Fiscal Year Ended May 31, 2021

Net Revenues. Our total net revenues decreased by 27.4% from US\$4,276.5 million for the fiscal year ended May 31, 2021 to US\$3,105.2 million for the fiscal year ended May 31, 2022. This decrease was due to cessation of K-9 Academic AST services during the year ended May 31, 2022 to be in compliance with applicable regulations, rules and policies in China.

- **Net Service Revenues.** Our net service revenues decreased by 27.9% from US\$4,230.6 million for the fiscal year ended May 31, 2021 to US\$3,050.0 million for the fiscal year ended May 31, 2022. This decrease was primarily due to the decrease in revenues from educational services and test preparation courses from US\$3,667.3 million in the fiscal year ended May 31, 2021 to US\$2,535.3 million in the fiscal year ended May 31, 2022 mainly as a result of the cessation of K-9 Academic AST services.
- **Net Product Revenues.** Our net product revenues increased by 20.3% from US\$45.9 million in the fiscal year ended May 31, 2021 to US\$55.2 million for the fiscal year ended May 31, 2022, primarily due to the increased sales of educational materials.

Operating Cost and Expenses. Our total operating cost and expenses decreased by 1.7% from US\$4,159.3 million in the fiscal year ended May 31, 2021 to US\$4,087.8 million in the fiscal year ended May 31, 2022. This decrease resulted from decreases in each of our cost of revenues, selling and marketing expenses and impairment loss in intangible assets and goodwill, partially offset by the increase in general and administrative expenses. In the second and third fiscal quarter of 2022, we incurred considerable cost from the termination of our leasing agreements in relation to the closure of the learning centers and the employee layoffs in connection with the cessation of K-9 Academic AST services in response to the regulatory development. 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 107 and 637, respectively, as of May 31, 2022, compared to 122 and 1,547, respectively, as of May 31, 2021. We employed approximately 54,200 and 26,300 teachers as of May 31, 2021 and 2022, respectively.

- **Cost of Revenues.** Our cost of revenues decreased by 13.9% from US\$ 2,036.9 million in the fiscal year ended May 31, 2021 to US\$1,754.3 million in the fiscal year ended May 31, 2022. This decrease was in line with the decrease in revenues and primarily due to the cessation of K-9 Academic AST services during the year ended May 31, 2022.
- **Selling and Marketing Expenses.** Our selling and marketing expenses decreased by 22.3% from US\$ 600.8 million in the fiscal year ended May 31, 2021 to US\$466.9 million in the fiscal year ended May 31, 2022. This decrease was primarily due to the decreased marketing expenses.
- **General and Administrative Expenses.** Our general and administrative expenses increased by 25.3% from US\$1,489.8 million in the fiscal year ended May 31, 2021 to US\$1,866.6 million in the fiscal year ended May 31, 2022. This increase was primarily due to an impairment loss of US\$435.7 million related to the downsize of our learning centers and an increase of US\$63.2 million in human resources expenses due to the cessation of our K-9 Academic AST Services.

Other Income, Net. Our other income, net changed from US\$197.7 million in the fiscal year ended May 31, 2021 to net other loss of US\$50.0 million in the fiscal year ended May 31, 2022, which was primarily due to impairment loss from long-term investments and loss on deconsolidation of subsidiaries in the fiscal year ended May 31, 2022 and certain VAT exemption due to the COVID-19 in the fiscal year ended May 31, 2021.

Provision for Income Tax. Our income tax expense increased by 63.1% from US\$83.6 million in the fiscal year ended May 31, 2021 to US\$136.3 million in the fiscal year ended May 31, 2022. The increase was primarily due to valuation allowance for deferred tax assets in the fiscal year ended May 31, 2022.

Net Income. As a result of the foregoing, our net loss for the fiscal year ended May 31, 2022 was US\$1,220.3 million, compared to net income of US\$230.0 million for the fiscal year ended May 31, 2021.

Discussion of Segment Operations

For the fiscal year ended May 31, 2021, we previously identified seven operating segments, including (i) K-12 AST, test preparation, and other 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 tour.

For the fiscal year ended May 31, 2022, as a result of the changes in the regulatory environment, we reduced our operating segments from seven to four. The four segments include (i) educational services and test preparation courses, which was formerly named as “K-12 AST, test preparation, and other courses,” (ii) online education and other services, which was formerly named as “online education,” (iii) overseas study consulting services, and (iv) educational materials and distribution, which was formerly named as “content development and distribution.” Our prior operating segments, primary and secondary school education, pre-school education and study tour, were no longer reviewed by our chief operating decision maker and thus, no longer considered as operating segments. These segments were aggregated as other services for the fiscal year ended May 31, 2022. We identified educational services and test preparation courses, online education and other services and overseas study consulting services as our three reportable segments for the fiscal year ended May 31, 2022. Our operating segment, educational materials and distribution, individually did not exceed the 10% quantitative threshold during the fiscal year ended May 31, 2022, and as a result, was aggregated in others.

For the fiscal year ended May 31, 2023, we identified four operating segments, including (i) educational services and test preparation courses, (ii) private label products and livestreaming e-commerce and other services, which was formerly named as “online education and other services,” (iii) overseas study consulting services, and (iv) educational materials and distribution. We identified educational services and test preparation courses, private label products and livestreaming e-commerce and other services, and overseas study consulting services as our three reportable segments for the fiscal year ended May 31, 2023. Our operating segment, educational materials and distribution, individually did not exceed the 10% quantitative threshold during the fiscal year ended May 31, 2023, and as a result, was aggregated in others.

Net revenues from our educational services and test preparation courses accounted for 85.8%, 81.6% and 60.9%, respectively, of our total net revenues in the fiscal years ended May 31, 2021, 2022 and 2023. Net revenues from overseas study consulting services accounted for 6.5%, 10.5% and 11.8%, respectively, of our total net revenues in the fiscal years ended May 31, 2021, 2022 and 2023. Net revenues from private label products and livestreaming e-commerce and other services accounted for 4.9%, 4.4% and 21.6%, respectively, of our total net revenues in the fiscal years ended May 31, 2021, 2022 and 2023. We recognize revenues from course fees collected for enrollment in our educational services and test preparation courses and online education proportionally as we deliver the instruction over the period of the course. We recognize revenues from the sales of private label products when control of the promised goods is transferred to the customer.

Cost of revenues for our educational services and test preparation courses primarily consists of teaching fees and performance-linked bonuses paid to our teachers, rental payments for our schools and learning centers and, to a lesser degree, depreciation and amortization of property and equipment used in the provision of educational services. Cost of overseas study consulting services primarily consists of application cost and staff costs. Cost of revenues for our private label products and livestreaming e-commerce and other services primarily consists of labor cost and procurement cost of goods.

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

General and administrative expenses for each of our reportable segments primarily consist of compensation and benefits of administrative staff of our reportable segments, compensation and benefits, rental and utilities payments relating to office and administrative functions of our reportable segments, depreciation and amortization of property and equipment used in the general and administrative activities of our reportable segments and, to a lesser extent, costs to develop our curriculum.

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,		
	2021	2022	2023
Net revenues of the reportable segments:			
Educational services and test preparation courses	3,667,270	2,535,318	1,825,212
Private label products and livestreaming e-commerce and other services	210,591	136,705	647,161
Overseas study consulting services	278,594	325,901	354,764
Total net revenues of the reportable segments	<u>4,156,455</u>	<u>2,997,924</u>	<u>2,827,137</u>
Total net revenues of our company	4,276,539	3,105,246	2,997,760
Operating cost and expenses of the reportable segments:			
Cost of revenues:			
Educational services and test preparation courses	(1,680,779)	(1,442,156)	(773,989)
Private label products and livestreaming e-commerce and other services	(145,428)	(68,732)	(364,645)
Overseas study consulting services	(127,841)	(165,673)	(179,284)
Selling and marketing:			
Educational services and test preparation courses	(326,708)	(273,344)	(217,915)
Private label products and livestreaming e-commerce and other services	(175,092)	(79,428)	(89,302)
Overseas study consulting services	(61,259)	(72,847)	(80,528)
General and administrative:			
Educational services and test preparation courses	(955,211)	(1,308,742)	(503,345)
Private label products and livestreaming e-commerce and other services	(124,897)	(72,361)	(50,658)
Overseas study consulting services	(60,580)	(61,258)	(61,861)
Total operating cost and expenses of the reportable segments	<u>(3,657,795)</u>	<u>(3,544,541)</u>	<u>(2,321,527)</u>
Total operating cost and expenses of our company	(4,159,273)	(4,087,759)	(2,807,714)

Fiscal Year Ended May 31, 2023 Compared to Fiscal Year Ended May 31, 2022

Net Revenues of Reportable Segments

Net Revenues of Educational Services and Test Preparation Courses

Net revenues from our educational services and test preparation courses decreased by 28.0% from US\$2,535.3 million for the fiscal year ended May 31, 2022 to US\$1,825.2 million for the fiscal year ended May 31, 2023, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2023 Compared to Fiscal Year Ended May 31, 2022—Net Revenues—Net Service Revenues.”

Net Revenues of Private Label Products and Livestreaming E-commerce and Other Services

Net revenues from private label products and livestreaming e-commerce and other services increased by 373.4% from US\$136.7 million for the fiscal year ended May 31, 2022 to US\$647.2 million for the fiscal year ended May 31, 2023, significant increase in the sales of East Buy private label products through our livestreaming e-commerce platform in the fiscal year ended May 31, 2023 as we expanded the product categories of private label products.

Net Revenues of Overseas Study Consulting Services

Net revenues from overseas study consulting services increased by 8.9% from US\$325.9 million for the fiscal year ended May 31, 2022 to US\$354.8 million for the fiscal year ended May 31, 2023, primarily due to the increased number of students who planned to study overseas.

Operating Costs and Expenses of Reportable Segments

Operating Cost and Expenses of Educational Services and Test Preparation Courses

- *Cost of Revenues.* Cost of revenues for our educational services and test preparation courses decreased by 46.3% from US\$1,442.2 million for the fiscal year ended May 31, 2022 to US\$774.0 million for the fiscal year ended May 31, 2023, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2023 Compared to Fiscal Year Ended May 31, 2022—Operating Costs and Expenses—Cost of Revenues.”
- *Selling and Marketing Expenses.* Selling and marketing expenses for our educational services and test preparation courses decreased by 20.3% from US\$273.3 million for the fiscal year ended May 31, 2022 to US\$217.9 million for the fiscal year ended May 31, 2023, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2023 Compared to Fiscal Year Ended May 31, 2022—Operating Costs and Expenses—Selling and Marketing Expenses.”
- *General and Administrative Expenses.* General and administrative expenses for our educational services and test preparation courses decreased by 61.5% from US\$1,308.7 million for the fiscal year ended May 31, 2022 to US\$503.3 million for the fiscal year ended May 31, 2023, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2023 Compared to Fiscal Year Ended May 31, 2022—Operating Costs and Expenses—General and Administrative Expenses.”

Operating Cost and Expenses of Private Label Products and Livestreaming E-commerce and Other Services

- *Cost of Revenues.* Cost of revenues for private label products and livestreaming e-commerce and other services increased by 430.5% from US\$68.7 million for the fiscal year ended May 31, 2022 to US\$364.6 million for the fiscal year ended May 31, 2023, primarily due to an increase in labor cost and procurement cost of goods.
- *Selling and Marketing Expenses.* Selling and marketing expenses for private label products and livestreaming e-commerce and other services increased by 12.4% from US\$79.4 million for the fiscal year ended May 31, 2022 to US\$89.3 million for the fiscal year ended May 31, 2023, primarily due to an increase in staff cost.
- *General and Administrative Expenses.* General and administrative expenses for private label products and livestreaming e-commerce and other services decreased by 30.0% from US\$72.4 million for the fiscal year ended May 31, 2022 to US\$50.7 million for the fiscal year ended May 31, 2023, primarily due to a decrease in share-based compensation expenses.

Operating Cost and Expenses of Overseas Study Consulting Services

- *Cost of Revenues.* Cost of revenues for overseas study consulting services increased by 8.2% from US\$165.7 million for the fiscal year ended May 31, 2022 to US\$179.3 million for the fiscal year ended May 31, 2023, primarily due to an increase in consulting application costs.
- *Selling and Marketing Expenses.* Selling and marketing expenses for overseas study consulting services increased by 10.5% from US\$72.8 million for the fiscal year ended May 31, 2022 to US\$80.5 million for the fiscal year ended May 31, 2023, primarily due to an increase in staff cost.
- *General and Administrative Expenses.* General and administrative expenses for overseas study consulting services increased by 1.0% from US\$61.3 million for the fiscal year ended May 31, 2022 to US\$61.9 million for the fiscal year ended May 31, 2023, primarily due to an increase in staff cost.

Fiscal Year Ended May 31, 2022 Compared to Fiscal Year Ended May 31, 2021

Net Revenues of Reportable Segments

Net Revenues of Educational Services and Test Preparation Courses

Net revenues from our educational services and test preparation courses decreased by 30.9% from US\$3,667.3 million for the fiscal year ended May 31, 2021 to US\$2,535.3 million for the fiscal year ended May 31, 2022, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2022 Compared to Fiscal Year Ended May 31, 2021—Net Revenues—Net Service Revenues.”

Net Revenues of Private Label Products and Livestreaming E-commerce and Other Services

Net revenues from private label products and livestreaming e-commerce and other services decreased by 35.1% from US\$210.6 million for the fiscal year ended May 31, 2021 to US\$136.7 million for the fiscal year ended May 31, 2022, primarily due to the decreased student enrolments of online education.

Net Revenues of Overseas Study Consulting Services

Net revenues from overseas study consulting services increased by 17.0% from US\$278.6 million for the fiscal year ended May 31, 2021 to US\$325.9 million for the fiscal year ended May 31, 2022, primarily due to the increased number of students who planned to study overseas.

Operating Costs and Expenses of Reportable Segments

Operating Cost and Expenses of Educational Services and Test Preparation Courses

- *Cost of Revenues.* Cost of revenues for our educational services and test preparation courses decreased by 14.2% from US\$1,680.8 million for the fiscal year ended May 31, 2021 to US\$1,442.2 million for the fiscal year ended May 31, 2022, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2022 Compared to Fiscal Year Ended May 31, 2021—Operating Costs and Expenses—Cost of Revenues.”
- *Selling and Marketing Expenses.* Selling and marketing expenses for our educational services and test preparation courses decreased by 16.3% from US\$326.7 million for the fiscal year ended May 31, 2021 to US\$273.3 million for the fiscal year ended May 31, 2022, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2022 Compared to Fiscal Year Ended May 31, 2021— Operating Costs and Expenses—Selling and Marketing Expenses.”
- *General and Administrative Expenses.* General and administrative expenses for our educational services and test preparation courses increased by 37.0% from US\$955.2 million for the fiscal year ended May 31, 2021 to US\$1,308.7 million for the fiscal year ended May 31, 2022, primarily due to the factors discussed in “—Results of Operations—Fiscal Year Ended May 31, 2022 Compared to Fiscal Year Ended May 31, 2021—Operating Costs and Expenses—General and Administrative Expenses.”

Operating Cost and Expenses of Private Label Products and Livestreaming E-commerce and Other Services

- *Cost of Revenues.* Cost of revenues for private label products and livestreaming e-commerce and other services decreased by 52.7% from US\$145.4 million for the fiscal year ended May 31, 2021 to US\$68.7 million for the fiscal year ended May 31, 2022, primarily due to a decrease in teaching staff costs and course research staff costs.
- *Selling and Marketing Expenses.* Selling and marketing expenses for private label products and livestreaming e-commerce and other services decreased by 54.6% from US\$175.1 million for the fiscal year ended May 31, 2021 to US\$79.4 million for the fiscal year ended May 31, 2022, primarily due to a decrease in staff costs.
- *General and Administrative Expenses.* General and administrative expenses for private label products and livestreaming e-commerce and other services decreased by 42.1% from US\$124.9 million for the fiscal year ended May 31, 2021 to US\$72.4 million for the fiscal year ended May 31, 2022, primarily due to a decrease in share-based compensation expenses and staff costs.

Operating Cost and Expenses of Overseas Study Consulting Services

- *Cost of Revenues.* Cost of revenues for overseas study consulting services increased by 29.6% from US\$127.8 million for the fiscal year ended May 31, 2021 to US\$165.7 million for the fiscal year ended May 31, 2022, primarily due to an increase in consulting application costs.

- *Selling and Marketing Expenses.* Selling and marketing expenses for overseas study consulting services increased by 18.9% from US\$61.3 million for the fiscal year ended May 31, 2021 to US\$72.8 million for the fiscal year ended May 31, 2022, primarily due to an increase in marketing expenses.
- *General and Administrative Expenses.* General and administrative expenses for overseas study consulting services increased by 1.1% from US\$60.6 million for the fiscal year ended May 31, 2021 to US\$61.3 million for the fiscal year ended May 31, 2022.

B. Liquidity and Capital Resources

Our principal source of liquidity has been cash generated from operating activities. As of May 31, 2023, we had US\$1,663.0 million and US\$142.4 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.

The following table sets forth a summary of our cash and cash equivalents, restricted cash and short-term investments inside and outside China as of May 31, 2023.

	Cash, cash equivalents and restricted cash in RMB	Cash, cash equivalents and restricted cash in other currencies	Total Cash, cash equivalents and restricted cash	Short-term investments in RMB	Short-term investments in other currencies	Total short-term investments
Entities outside China	1,593	188,979	190,572	—	73,013	73,013
VIEs in China	1,224,637	635	1,225,272	938,794	—	938,794
Non-VIEs in China	371,222	18,361	389,583	466,036	—	466,036
Entities inside China	1,595,859	18,996	1,614,855	1,404,830	—	1,404,830
Total	1,597,452	207,975	1,805,427	1,404,830	73,013	1,477,843

Although we consolidate the results of the VIEs, our access to the consolidated affiliated entities is only through the 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 “—Contractual Arrangements with Beijing Xuncheng, Its Subsidiaries and Shareholders.” For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see “—Holding Company Structure.”

We expect to require cash to fund our ongoing business needs, particularly the rent and other cost and expenses relating to developing new businesses. 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,		
	2021	2022	2023
Net cash provided by/(used in) operating activities	1,130,085	(1,280,453)	971,008
Net cash (used in)/provided by investing activities	(2,177,639)	1,168,532	(37,411)
Net cash provided by/(used in) financing activities	1,654,084	(230,858)	(246,867)
Effect of foreign exchange rate changes	106,173	(94,821)	(75,830)
Net change in cash and cash equivalents	712,703	(437,600)	610,900
Cash and cash equivalents and restricted cash at beginning of the period	919,424	1,632,127	1,194,527
Cash and cash equivalents and restricted cash at end of the period	1,632,127	1,194,527	1,805,427

Operating Activities

Net cash provided by operating activities amounted to US\$971.0 million in the fiscal year ended May 31, 2023. Our net cash used in operating activities in the fiscal year ended May 31, 2023 reflected net income of US\$235.4 million, as adjusted by the reconciliation of certain non-cash items, including US\$117.0 million in depreciation and US\$89.8 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in the deferred revenue in the amount of US\$469.3 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\$83.4 million, primarily due to an increase in accrued employee salary expenses and welfare benefits.

Net cash used in operating activities amounted to US\$1,280.5 million in the fiscal year ended May 31, 2022. Our net cash used in operating activities in the fiscal year ended May 31, 2022 reflected net loss of US\$1,220.3 million, as adjusted by the reconciliation of certain non-cash items, including US\$192.3 million in depreciation and US\$133.0 million in share-based compensation expense. Additional factors affecting operating cash flow included an decrease in the deferred revenue in the amount of US\$925.0 million, and an decrease in the accrued expenses and other current liabilities account of US\$315.8 million, primarily due to an decrease in accrued employee salary expenses and welfare benefits.

Net cash provided by operating activities amounted to US\$1,130.1 million in the fiscal year ended May 31, 2021. Our net cash provided by operating activities in the fiscal year ended May 31, 2021 reflected net income of US\$230.0 million, as adjusted by the reconciliation of certain non-cash items, including US\$225.7 million in depreciation and US\$68.9 million in share-based compensation expense. Additional factors affecting operating cash flow included an increase in the deferred revenue in the amount of US\$420.3 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\$122.1 million, primarily due to an increase in accrued employee salary expenses and welfare benefits.

Investing Activities

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

Net cash used in investing activities amounted to US\$37.4 million in the fiscal year ended May 31, 2023, compared to net cash provided by investing activities of US\$1,168.5 million in the fiscal year ended May 31, 2022 and net cash used in investing activities of US\$2,177.6 million in the fiscal year ended May 31, 2021.

Net cash used in investing activities in the fiscal year ended May 31, 2023 was primarily attributable to purchase of property and equipment of US\$143.0 million and partially offset by net proceeds of US\$117.3 million from investing in short-term investments and term deposits.

Net cash provided by investing activities in the fiscal year ended May 31, 2022 was primarily attributable to proceeds from maturity of short-term investments of US\$2,041.0 million, partially offset by purchase of short-term investments of US\$540.8 million and purchase of property and equipment of US\$150.7 million.

Net cash used in investing activities in the fiscal year ended May 31, 2021 was primarily attributable to net purchase of short term investments in the amount of US\$801.3 million, purchase of term deposits in the amount of US\$1,203.6 million and the purchase of property and equipment in the amount of US\$429.2 million in connection with the expansion of our school network.

Financing Activities

Net cash used in financing activities amounted to US\$246.9 million in the fiscal year ended May 31, 2023, compared to net cash used in financing activities amounted to US\$230.9 million in the fiscal year ended May 31, 2022 and net cash provided by financing activities amounted to US\$1,654.1 million in the fiscal year ended May 31, 2021.

Net cash used in financing activities in the fiscal year ended May 31, 2023 was primarily attributable to the funds used for share repurchase in the amount of US\$191.6 million and the unsecured senior notes repurchase in the amount of US\$48.8 million.

Net cash used in financing activities in the fiscal year ended May 31, 2022 was primarily attributable to the unsecured senior notes repurchase in the amount of US\$222.0 million.

Net cash provided by financing activities in the fiscal year ended May 31, 2021 was primarily attributable to proceeds from secondary public offering in Hong Kong in the amount of US\$1,482.8 million and the unsecured senior notes in the amount of US\$297.1 million and the repayments of long-term loan in the amount of US\$120.0 million.

Material cash requirements

Our material cash requirements as of May 31, 2023 and any subsequent interim period primarily include our capital expenditures, operating lease commitments, long-term debt obligations and funds used for share repurchase.

The expansion of our existing program, service and product offerings to new areas and launch of new business initiatives have required investment. Our capital expenditures were US\$429.2 million, US\$150.7 million and US\$143.0 million in the fiscal years ended May 31, 2021, 2022 and 2023, respectively. Our capital expenditures are incurred primarily in connection with facility acquisitions, leasehold improvements and investments in equipment, technology and operating systems. We believe that we will be able to fund our capital needs in the foreseeable future through cash generated from our operating activities.

Our operating lease commitments consist of the commitments under the lease agreements for our schools, learning centers, office premises and other facilities. As of May 31, 2023, the payment due within one year and thereafter for our operating lease commitments amounted to US\$480.8 million.

Our long-term debt obligations consist of the principal amount and cash interests in connection with unsecured senior notes issued in July 2020. In July 2020, we issued unsecured senior notes for a principal amount of US\$300 million which were listed in the Stock Exchange of Hong Kong Limited. The notes bear fixed interest rate at 2.125% with interest payable semiannually in arrears on January 2 and July 2 of each calendar year, commencing on January 2, 2021. As of May 31, 2023, we repurchased an aggregate principal amount of US\$285.3 million of the notes with a total cash consideration of US\$270.8 million, the principal amount of the unsecured senior notes was US\$14.7 million.

On July 26, 2022, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$400 million of the Company's ADSs or common shares during the period from July 28, 2022 through May 31, 2023. Our board of directors further authorized to extend such share repurchase program by twelve months through May 31, 2024. As of May 31, 2023, we repurchased an aggregate of 5,946,314 ADSs under this share repurchase program. See "Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers."

We intend to fund our existing and future material cash requirements with our existing cash balance. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have retained or contingent interests in assets transferred. We have not entered into contractual arrangements that support the credit, liquidity or market risk for transferred assets. We do not have obligations that arise or could arise from variable interests held in an unconsolidated entity, or obligations related to derivative instruments that are both indexed to and classified in our own equity, or not reflected in the statement of financial position.

Other than as discussed above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of May 31, 2023.

Holding Company Structure

Overview

New Oriental is a holding company with no material operations of its own. We conduct substantially all of our business in China through contractual arrangements with the 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, 2021, 2022 and 2023, the consolidated affiliated entities contributed in aggregate 99.9%, 99.6% and 99.5%, respectively, of our total net revenues. Our operations not conducted through contractual arrangements with the variable interest entities primarily consist of the leasing of our commercial property. As of May 31, 2022 and 2023, the consolidated affiliated entities accounted for an aggregate of 51.9% and 56.1%, respectively, of our total assets, and 95.4% and 95.2%, respectively, of our total liabilities. The assets not associated with the consolidated affiliated entities primarily consist of cash and cash equivalents, term deposits and short-term investments. As of May 31, 2022 and 2023, US\$864.0 million and US\$1,013.3 million, respectively, of these assets were denominated in U.S. dollars, and US\$2,788.4 million, respectively US\$1,240.6 million, 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, New Oriental’s ability to pay dividends and other cash distributions to its shareholders depends in part upon dividends and other distributions paid to it 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 the variable interest entities, and, to a lesser degree, our PRC subsidiaries’ retained earnings. As of May 31, 2021, 2022 and 2023, the total amount of service fees payable to our PRC subsidiaries from the variable interest entities under the service agreements was US\$548.2 million, US\$580.8 million US\$61.8 million, respectively.

Conducting our operations through contractual arrangements with the variable interest entities entails a risk that we may lose the power to direct the activities that most significantly affect the economic performance of the 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. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” for more information, including the risk factors titled “If the PRC government finds that the agreements that establish the structure for operating some of our China business do not comply with applicable PRC laws and regulations relating to the relevant industries, or if these regulations or the 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 is not as effective in providing operational control as direct ownership.”

Dividend Distributions

Under PRC law, each of our PRC subsidiaries, variable interest entities and their respective subsidiaries which is not a for-profit private school is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory surplus reserve until such reserve reaches 50% of its registered capital and to further set aside a portion of its after-tax profit to fund the reserve fund at the discretion of our board of directors. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation. In addition, each of our schools that requires or does not requires reasonable returns in China is required to allocate a certain amount out of its annual net income or annual increase in the net assets, if any, to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. For our schools which have elected to require reasonable returns, this amount shall be no less than 25% of the annual net income of the school, and for our schools which have elected not to require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any. Each of our schools that is for-profit or non-profit in China is required to allocate a certain amount to its development fund for the development of the school. In the case of a for-profit private school, this amount shall be no less than 10% of the audited annual net income of the school, while in the case of a non-profit private school, this amount shall be equal to no less than 10% of the audited annual increase in the unrestricted 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 the 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, 2023, 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\$935.0 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\$1,549.3 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.”

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 learning experience and improve our operational efficiency. We employ experienced research and development personnel to build, maintain and upgrade our technologies and systems. We had approximately 5,100, 3,000 and 2,900 research and development personnel as of May 31, 2021, 2022 and 2023, 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. 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.

Big data analytics technology

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

AI-powered technologies

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

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

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

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

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

Technology Platform and Infrastructure

Our technology platform is designed to provide systems that help distinguish ourselves in the marketplace, operate cost-effectively and accommodate future growth. Our technology platform is a combination of our proprietary self-adaptive learning systems, content management systems, interactive courseware, exam platforms, computerized assessment testing systems, 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.

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, 2023, we had 28 main works of art copyrights and 45 main software copyrights in China relating to various aspects of our operations, and 16 main trademark registrations in China, of which “新东方在线,” “新东方,” and “新东方” 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, www.eastbuy.com and www.koolearn.com. In addition, we have registered other domain names, including dogwood.com.cn, blingabc.com, ileci.com, 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 local governmental authorities. We consider our insurance coverage to be in line with that of other private education providers in China.

D. Trend Information

Please refer to “—A. Results of Operations” for a discussion of known trends, uncertainties, demands, commitments or events 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. Critical Accounting Estimates

We prepare our financial statements in accordance with U.S. GAAP, which requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenue, costs, and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Our management has discussed the development, selection and disclosure of these estimates with our board of directors. Since our financial reporting process inherently relies on the use of estimates and assumptions, actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that could reasonably have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included with this annual report.

Fair value measurement of level 3 available-for-sale investments

Available-for-sale investments are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income as a component of shareholders' equity. Declines in the fair value of individual available-for-sale investments below their amortized cost due to credit-related factors are recognized as an allowance for credit losses, whereas if declines in the fair value is not due to credit-related factors, the loss is recorded in other comprehensive income / (loss).

The available-for-sale investments classified within Level 3 assets are valued using income approach in discounted cash flow method or market approach in back solve method. The discounted cash flow analysis and back solve method require the use of significant unobservable inputs (Level 3 inputs) which involve significant management judgment and estimation, such as revenue growth rate and weighted average cost of capital.

Income taxes and valuation allowance for deferred tax assets

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 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.

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 tax 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.

Significant judgment is required in determining the valuation allowance. In assessing the need for a valuation allowance, we consider all sources of factors, including estimates such as projected future taxable income, reversing taxable temporary differences and ongoing tax planning strategies. If it is determined that we are able to realize deferred tax assets in excess of the net carrying value or to the extent we are unable to realize deferred tax assets, we would adjust the valuation allowance in the period in which such determination is made, with a corresponding increase or decrease to earnings.

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.

<u>Name</u>	<u>Age</u>	<u>Position/Title</u>
Michael Minhong Yu	60	Executive Chairman
Chenggang Zhou	61	Director and Chief Executive Officer
Zhihui Yang	49	Executive President and Chief Financial Officer
Louis T. Hsieh	58	Director
Robin Yanhong Li	54	Independent Director
Denny Ting Bun Lee	55	Independent Director
John Zhuang Yang	68	Independent Director

Mr. Michael Minhong Yu is the founder of our company and has served as the chairman of our board of directors since August 2001. He was also our chief executive officer from 2001 to September 2016. Mr. Yu currently serves as the chairman of the board and non-executive director of East Buy Holding Limited (HKEX: 1797). Mr. Yu also serves as Standing Committee Member of the Central Committee of the China Democratic League. Prior to founding our first school in 1993, Mr. Yu was an English instructor at Peking University from 1985 to 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 executive president since January 2021 and chief financial officer since April 2015. He held multiple positions since he joined our company in April 2006, including vice president of finance, deputy director of president office and senior financial manager. Mr. Yang has served as an independent director of DiDi Global Inc. (OTC: DIDIY) since April 2023. 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 Guanghai School of Management of Peking University.

Mr. Louis T. Hsieh has served as our director since March 2007 and senior advisor since January 2016. From May 2009 to January 2016, Mr. Hsieh served as our president, and from December 2005 to April 2015, he served as our chief financial officer. Mr. Hsieh currently serves as the global chief financial officer, since April 2021, and board director, since June 2021, of Hesai Technology, a global leader in 3-D Lidar solutions. Mr. Hsieh also serves as an independent director since May 2014, 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 (NYSE: YUMC; HKEX: 9987) from November 2016 to June 2023, and chairman of the audit committee from 2016 to 2019, of Yum China Holdings, Inc. From May 2017 to October 2019, Mr. Hsieh served as the global chief financial officer of NIO Inc. (NYSE: NIO; HKEX: 9866; SGX: NIO), a leading electric car original equipment manufacturer. 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 2006. Mr. Li is a co-founder of Baidu, Inc. (NASDAQ: BIDU; HKEX: 9888), a leading AI company with strong Internet foundation. Mr. Li has served as the chairman of the board of directors of Baidu since its inception in January 2000 and as its chief executive officer since February 2004. He served as the president of Baidu from February 2000 to December 2003. Prior to founding Baidu, Mr. Li worked as an engineer at Infoseek, a pioneer in the Internet search engine industry, and as a senior consultant for IDD Information Services. Mr. Li received a bachelor's degree in information science from Peking University and a master's degree in computer science from the State University of New York at Buffalo.

Mr. Denny Ting Bun Lee has served as our independent director since September 2006. Mr. Lee currently also serves as the chairman of the audit committees and independent non-executive director on the boards of NIO Inc. (NYSE: NIO; HKEX: 9866; SGX: NIO) and Jianpu Technology Inc. (NYSE: JT). From April 2002 to June 2022, Mr. Lee served as a director of NetEase, Inc., formerly known as NetEase.com, Inc., which is listed on the Nasdaq Global Select Market (NASDAQ: NTES) and the Hong Kong Stock Exchange (HKEX: 9999). 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., Mr. Lee worked in the Hong Kong office of KPMG for more than ten years. In addition, from August 2013 to June 2022, Mr. Lee served as independent non-executive director on the board of China Metal Resources Utilization Ltd. (HKEX: 1636), which is listed on the main board of Hong Kong Stock Exchange. Mr. Lee graduated from the Hong Kong Polytechnic University majoring in accounting and is a member of The Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified Accountants.

Dr. John Zhuang Yang has served as our independent director since August 2007. From July 2021, he has also served as an independent director of UXIN Limited, which is a used car company listed on the Nasdaq Stock Market. Dr. Yang was Co-Dean and Professor of Management of the Beijing International MBA Program (BIMBA) at National School of Development of Peking University from 2001 to 2020. He is now Professor Emeritus 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.

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, 2023, we paid an aggregate of approximately US\$4.9 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\$82.7 thousand. 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 (without taking into account the one-for-ten share split that took effect on March 10, 2021), 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;
- 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 100,000,000 shares (taking into account the one-for-ten share split that took effect on March 10, 2021). The 2016 plan has a term of 10 years, unless terminated earlier. As of May 31, 2023, an aggregate of 30,271,273 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.

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 15, 2023, the outstanding non-vested equity shares granted under our 2016 plan to our directors and executive officers (taking into account the one-for-ten share split that took effect on March 10, 2021).

Name	Common Shares Underlying Outstanding NES	Exercise Price (US\$/Share)	Date of Grant	Date of Vest
Michael Minhong Yu	*	†	05/14/2021	06/30/2024
	*	†	09/09/2022	06/30/2024
Chenggang Zhou	*	†	09/09/2022	06/30/2025
	*	†	05/14/2021	06/30/2024
Zhihui Yang	*	†	09/09/2022	06/30/2024
	*	†	09/09/2022	06/30/2025
Louis T. Hsieh	*	†	05/14/2021	06/30/2024
	*	†	09/09/2022	06/30/2024
Robin Yanhong Li	*	†	09/09/2022	06/30/2025
	*	†	05/14/2021	06/30/2024
Denny Ting Bun Lee	*	†	09/09/2022	06/30/2024
	*	†	09/09/2022	06/30/2025
John Zhuang Yang	*	†	05/14/2021	06/30/2024
	*	†	09/09/2022	06/30/2024
	*	†	09/09/2022	06/30/2025

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

† Non-vested equity share awards.

East Buy Share Option Schemes

On July 13, 2018, the board of directors of East Buy approved an employee's share option plan, or the East Buy Pre-IPO Share Option Scheme, under which East Buy is authorized to issue up to 47,836,985 shares in East Buy pursuant to awards granted to any director, employee, contractor or affiliate of East Buy (including nominees and/or trustees of any employee benefit trusts established for them). As of May 31, 2023, options to obtain an aggregate of 27,084,385 shares in East Buy remained outstanding under the East Buy Pre-IPO Share Option Scheme. No options were forfeited and no shares were cancelled in the fiscal year ended May 31, 2023.

On January 30, 2019, the board of directors of East Buy approved an employee's share option plan, or the East Buy Post-IPO Share Option Scheme, under which East Buy is authorized to issue up to 91,395,910 shares in East Buy pursuant to awards granted to, among others, directors, employees of East Buy or its affiliate. As of May 31, 2023, options to obtain an aggregate of 40,462,810 shares in East Buy remained outstanding under the East Buy Post-IPO Share Option Scheme. Options to obtain 1,216,275 shares in East Buy shares were either forfeited or cancelled in the fiscal year ended May 31, 2023. The East Buy Post-IPO Share Option Scheme was terminated following the effectiveness of the East Buy 2023 Scheme (as defined below) in March 2023, provided that any granted and unexercised options made under the Post-IPO Share Option Scheme immediately before the termination shall continue to be valid and exercisable in accordance with the terms of the grant and original Post-IPO Share Option Scheme rules.

On March 9, 2023, the shareholders of East Buy approved an employee's share incentive scheme, or the East Buy 2023 Scheme, under which East Buy is authorized to issue up to 101,351,871 shares in East Buy pursuant to awards granted to, among others, directors, employees of East Buy or its affiliate. As of May 31, 2023, awards to obtain an aggregate of 30,314,000 shares in East Buy remained outstanding under the East Buy 2023 Scheme. Awards to obtain 145,000 shares in East Buy shares were either forfeited or cancelled in the fiscal year ended May 31, 2023.

C. Board Practices

Our board of directors currently consists of six directors, which consist of three independent directors and three directors who are, or had been, our executive officers. Section 303A.01 of the NYSE Listed Company Manual requires each listed company to have a majority of independent directors on the board of directors after the first anniversary of the company's listing on the NYSE. 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, 2023, our board held meetings or passed resolutions by unanimous written consent ten 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 Ting Bun 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 Ting Bun 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, 2023, 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 three times, including the audit committee's approval of two quarterly earnings releases, semi-annual result and annual result.

Compensation Committee

- Our compensation committee consists of Mr. Robin Yanhong Li, Mr. Denny Ting Bun 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, 2023, the compensation committee passed resolutions by unanimous written consent once, and also approved certain other matters together with the rest of the board members once.

Nominating and Corporate Governance Committee

- Our nominating and corporate governance committee consists of Dr. John Zhuang Yang, Mr. Robin Yanhong Li and Mr. Denny Ting Bun 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, 2023, the nominating and corporate governance committee passed resolutions by unanimous written consent 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 88,126, 46,653 and 50,438 full-time employees and 17,086, 6,418 and 5,068 contract teachers and staff as of May 31, 2021, 2022 and 2023, respectively. The decrease in the number of employees as of May 31, 2022, and the decreases in the number of contract teachers and staff as of May 31, 2022 was primarily due to the cessation of our K-9 Academic AST services, in order to comply with the government policies in China. 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.

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 15, 2023.

	Shares Beneficially Owned	
	Number ⁽¹⁾	% ⁽²⁾
Directors and Executive Officers:		
Michael Minhong Yu ⁽³⁾	202,072,160	12.2
Chenggang Zhou	*	*
Zhihui Yang	*	*
Louis T. Hsieh	*	*
Robin Yanhong Li	*	*
Denny Ting Bun Lee	*	*
John Zhuang Yang	*	*
All Directors and Executive Officers as a Group ⁽⁴⁾	211,651,075	12.8
Principal Shareholders:		
Tigerstep Developments Limited ⁽⁵⁾	201,385,540	12.2
GIC Private Limited ⁽⁶⁾	84,984,093	5.1

* 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) 1,655,124,293, being the number of common shares outstanding as of September 15, 2023 and (ii) the number of non-vested equity shares held by such person or group that will vest within 60 days after September 15, 2023.
- (3) Includes (i) 169,235,000 common shares held by Tigerstep Developments Limited, a British Virgin Islands company wholly owned by Mr. Michael Minhong Yu and (ii) 3,283,716 ADSs (each representing ten underlying common shares), which consist of 3,215,054 ADSs held by Tigerstep Developments Limited and 68,662 ADSs held by Mr. 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 15, 2023 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 Marcy Building, 2nd Floor, P.O. Box 2416, Road Town, Tortola, the British Virgin Islands.
- (6) Represents (i) 73,701,510 common shares, including 28,124,830 common shares represented by 2,812,483 ADSs, and (ii) 11,282,583 common shares, including 6,346,660 common shares represented by 634,666 ADSs, beneficially owned by GIC Private Limited, or GIC, as reported in a Schedule 13G filed by GIC with the SEC on June 1, 2023 (the "Schedule 13G"). As reported in the Schedule 13G, GIC has the sole voting and disposal power over 73,701,510 shares it beneficially owns and shares voting and disposal power over 11,282,583 shares it beneficially owns with the Monetary Authority of Singapore. GIC is wholly-owned by the Government of Singapore, who disclaims beneficial ownership of such shares, as reported in the Schedule 13G. The address of GIC is 168 Robinson Road, #37-01 Capital Tower, Singapore 068912.

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 15, 2023, we had 1,655,124,293 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 54.8% 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.

F. Disclosure of Registrant's Action to Recover Erroneously Awarded Compensation

Not applicable.

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 East Buy

Deed of Non-Competition Undertakings

On March 28, 2019, East Buy 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 East Buy with respect to the ongoing relationship between us and East Buy after the listing of East Buy’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, East Buy has the option to purchase all or any portion of the offered equity interest. The foregoing undertaking will end if East Buy’s securities cease to be listed on HKEx or 12 months after we cease to be the controlling shareholder of East Buy, 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, 2023, 18 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, 2023, we accrued a total of US\$8.4 million rent to Metropolis Holding. As of May 31, 2023, amounts due from Metropolis Holding were US\$3.8 million, which represented prepaid rent and rental deposit. In addition, Metropolis Holding, as a property management company, also provided property management services to the Company for several rented floors of office space. As of May 31, 2023, amounts due to Metropolis Holding were US\$0.2 million, which represented accrued but unpaid service fee.

Loans to Related Parties

Beijing Dianshi Jingwei Technology Co., Ltd., or Dianshi Jingwei, is an equity method investee of us. 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. 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. The outstanding balance of US\$21.0 million had been fully repaid by Dianshi Jingwei as of May 31, 2021. In October 2021, we entered into a purchase agreement with Dianshi Jingwei for the purchase of learning devices, of which US\$52.4 million was recorded as cost. The remaining balance, amounting to US\$20.2 million, represents prepayment made to Dianshi Jingwei as of May 31, 2022. Subsequent to May 31, 2022, we transferred our equity investment in Dianshi Jingwei to the founder of Dianshi Jingwei and ceased our business cooperation with Dianshi Jingwei.

Beijing MaxEn International Education Consulting Company Limited, or Beijing MaxEn is an equity method investee of us. As of May 31, 2022, the outstanding balance of the loans was US\$40.2 million, which was fully impaired.

Transactions with Other Related Parties

During the fiscal year ended May 31, 2023, we recorded revenue in the amount of US\$2.1 million from other related parties. As of May 31, 2023, we had US\$7.3 million in aggregate due from other related parties and US\$110 thousand 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 have been and 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 were 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 May 30, 2017, the lead plaintiffs filed their first amended complaint alleging that the Company's public filings contained material misstatements and omissions in violation of the 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. 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. On May 5, 2020, the court administratively terminated the case and all pending motions upon the parties' notification of their intention to settle the matter. On June 4, 2021, the court granted preliminary approval of the parties' settlement. On October 20, 2021, the court granted final approval of the settlement, in which our company agreed, among other things, to pay US\$3,150,000 to resolve all claims and causes of action that arise out of or relate in any way to the allegations in this class action. With this final approval of the settlement, this securities class action against the company has been substantially resolved.

Separately, beginning in February 2022, our company and certain of our officers and directors were named as defendants in two related securities class actions filed in the United States District Court for the Southern District of New York. In June 2022, these actions were consolidated under the caption *In re New Oriental Education & Technology Group Inc. Securities Litigation*, No. 1:22-CV-01014. On September 2, 2022, Lead Plaintiff filed its amended consolidated complaint purportedly on behalf of a class of persons who purchased or acquired our company's ADSs between October 23, 2018 and July 25, 2021, alleging that defendants' statements contained alleged misstatements and omissions regarding our company's business and compliance practices in violation of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Plaintiff filed the Second Amended Consolidated Complaint on December 9, 2022. Briefing on defendants' Motion to Dismiss was completed on June 26, 2023. The Court's decision on the Motion remains pending. This action remains in its preliminary stage, and we are unable to estimate the possible outcome or loss or possible range of loss, if any, associated with the resolution of this case.

For risks and uncertainties relating to the pending class action 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.

New Oriental is 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.

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. Our common shares have been listed on the Hong Kong Stock Exchange since November 9, 2020 under the stock code “9901.” On April 8, 2022, we effected a change in the ratio of our ADSs to common shares from one ADS representing one common share to one ADS representing ten common shares.

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 Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands, or the Companies Act, and the common law of the Cayman Islands. The following are summaries of material provisions of our second 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 Act, 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.

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 Act 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-tenth of the voting share capital, for as long as the shares remain listed on the Hong Kong Stock Exchange, or otherwise 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 10% of our voting share capital for as long as the shares remain listed on the Hong Kong Stock Exchange, or (ii) otherwise not less than 33% of our voting share capital. Advance notice of at least fourteen days, for as long as the shares remain listed on the Hong Kong Stock Exchange, or otherwise 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 or times 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 Act, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by special resolution.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Act, 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 second 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 Act 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 Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the United States.

Mergers and Similar Arrangements. The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies 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 Act.

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 second 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 second 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 second 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 second amended and restated 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.

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 second 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 second 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 second 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 second amended and restated 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 second 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 second 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 Act, 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 second 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 second amended and restated 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 second 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 second 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 Its 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 is a summary of U.S. federal income tax considerations generally applicable to U.S. Holders (as defined below) of the ownership and disposition of our ADSs or common shares. The following discussion applies only to U.S. Holders (as defined below) that hold our ADSs or common shares as capital assets (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended. 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 there can be no assurance that the Internal Revenue Service or a court will not take a contrary position. Moreover, this summary does not address the U.S. federal estate, gift, Medicare, backup withholding, and minimum tax considerations, or any state, local, and non-U.S. tax considerations, relating to the ownership and disposition of our ADSs or common shares.

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;
- persons liable for minimum tax;
- persons holding ADSs or common shares as part of a straddle, hedging, conversion, constructive sale, or other integrated transaction for United States federal income tax purposes;
- 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 treated 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 generally depend upon the status of the partner and the activities of the partnership. Partnerships holding our common shares or ADSs and partners in such partnerships 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.

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. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive 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 the VIES (including their subsidiaries) as being owned by us for U.S. federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of the economic benefits associated with these entities, and, as a result, we are considered the primary beneficiary of these entities and consolidate their operating results in our combined financial statements under the U.S. GAAP for accounting purposes.

Based upon the nature and composition of our assets (in particular, the retention of substantial amounts of cash, deposits and investments), and the market price of our ADSs, we believe that we were a PFIC for U.S. federal income tax purposes for the taxable year ended May 31, 2023, and we will likely be a PFIC for our current taxable year unless the market price of our ADSs increases and/or we invest a substantial amount of the cash and other passive assets we hold in assets that produce or are held for the production of active income. 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 even if we cease to be a PFIC.

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 (including the amount of any tax withheld) paid to you with respect to the ADSs or common shares out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be included in your gross income as ordinary dividend income on the date actually or constructively received 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.

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 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 (the “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 PRC withholding taxes on dividends paid on our ADSs or common shares. 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 availability of the foreign tax credit under their particular circumstances.

As discussed above, we believe that we were a PFIC for the taxable year ended May 31, 2023, and we will likely be classified as a PFIC for our current taxable year. U.S. Holders are urged to consult their tax advisors regarding the availability of the reduced tax rate on dividends with respect to our ADSs or common shares under their particular circumstances.

Taxation of Disposition of Shares

Subject to the passive foreign investment company rules discussed below, a U.S. Holder will generally 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 upon the disposition of the ADS or common share and such holder's adjusted 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 for U.S. foreign tax credit purposes, which will generally limit the availability of foreign tax credits.

In the event that we are deemed to be a PRC resident enterprise under the EIT Law, gains from the disposition of the ADSs or common shares may be subject to PRC income tax and will generally be U.S. source, which may limit the ability to receive a foreign tax credit. If a U.S. Holder is eligible for the benefits of the Treaty, such holder may be able to elect to treat such gain as PRC source income under the Treaty. Pursuant to U.S. Treasury regulations, however, if a U.S. Holder is not eligible for the benefits of the Treaty or does not elect to apply the Treaty, then such holder may not be able to claim a foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or common shares. The rules regarding foreign tax credits and deduction of foreign taxes are complex. U.S. Holders should 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 a foreign tax credit or deduction in light of their particular circumstances, including their eligibility for benefits under the Treaty, and the potential impact of the recently issued U.S. Treasury regulations.

As discussed above, we believe that we were a PFIC for the taxable year ended May 31, 2023, and we will likely be classified as a PFIC for our current taxable year. U.S. Holders are urged to consult their tax advisors regarding the tax considerations of the sale or other disposition of our ADSs or common shares under their particular circumstances.

Passive Foreign Investment Company Rules

As discussed above, we believe that we were a PFIC for the taxable year ended May 31, 2023, and we will likely be classified as a PFIC for our current taxable year. 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, if shorter, the U.S. Holder's holding period for the ADSs or common shares, and (2) any gain realized on the sale or other disposition of 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.

As an alternative to the foregoing rules, 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, provided that such stock is “regularly traded” (as defined below) within the meaning of applicable U.S. Treasury regulations. If a U.S. Holder makes a mark-to-market election for the ADSs or common shares, such holder will generally 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, such 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 mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the U.S. Holder will not be required to take into account the gain or loss described above during any period that such corporation is not classified as a PFIC.

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 if we are a PFIC. However, there can be no assurance in this regard. Only our ADSs, and not our common shares, are listed on the NYSE. Consequently, if a U.S. Holder holds common shares that are not represented by ADSs, such holder generally will not be eligible to make a mark-to-market election if we are a PFIC. Because a mark-to-market election cannot technically 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.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

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 advisors regarding the potential reporting requirements that may apply and the U.S. federal income tax consequences of holding and disposing of our ADSs or common shares if we are treated as a PFIC, including the possibility of making a mark-to-market election and the unavailability of the election to treat us as a qualified electing fund.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

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 depository 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 depository 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 depository from us.

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.

J. Annual Report to Security Holders

We intend to submit the annual report provided to security holders in electronic format pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as an exhibit to a current report on Form 6-K.

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\$44.2 million in our interest income for the year ended May 31, 2023.

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 RMB15.8 million in the value of our U.S. dollar denominated financial assets as of May 31, 2023. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our common 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.

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. In the fiscal year ended May 31, 2023, we received a sum of US\$4.9 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 was recognized in other income.

Conversion between Common Shares and ADSs

Dealings and Settlement of Common Shares in Hong Kong

Our common shares trade on the Hong Kong Stock Exchange in board lots of 100 common shares following a share subdivision that took effect on March 10, 2021. Dealings in our common shares on the Hong Kong Stock Exchange will be conducted in Hong Kong dollars.

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

- Hong Kong Stock Exchange trading fee of 0.005% of the consideration of the transaction, charged to each of the buyer and seller;
- SFC transaction levy of 0.0027% of the consideration of the transaction, charged to each of the buyer and seller;
- FRC transaction levy of 0.00015% of the consideration of the transaction, charged to each of the buyer and seller;
- trading tariff of HK\$0.50 on each and every purchase or sale transaction. The decision on whether or not to pass the trading tariff onto investors is at the discretion of brokers;
- transfer deed stamp duty of HK\$5.00 per transfer deed (if applicable), payable by the seller;
- ad valorem stamp duty at a total rate of 0.2% of the value of the transaction, with 0.1% payable by each of the buyer and the seller;
- stock settlement fee, which is currently 0.002% of the gross transaction value, subject to a minimum fee of HK\$2.00 and a maximum fee of HK\$100.00 per side per trade;
- brokerage commission, which is freely negotiable with the broker (other than brokerage commissions for IPO transactions which are currently set at 1% of the subscription or purchase price and will be payable by the person subscribing for or purchasing the securities); and
- the Hong Kong share registrar will charge HK\$2.50 (or such higher fee as may from time to time be permitted under the Hong Kong Listing Rules), for each transfer of common shares from one registered owner to another, each share certificate canceled or issued by it and any applicable fee as stated in the share transfer forms used in Hong Kong.

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

Conversion between Common Shares Trading in Hong Kong and ADSs

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

All common shares offered in the Hong Kong IPO have been registered on the Hong Kong share register. As described in further detail below, holders of common shares registered on the Hong Kong share register will be able to convert these shares into ADSs, and vice versa.

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

Converting Common Shares Trading in Hong Kong into ADSs

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

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

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

For common shares deposited in CCASS, under normal circumstances, the above steps generally require two business days. For common shares held outside CCASS in physical form, the above steps may take 14 business days, or more, to complete. Temporary delays may arise. For example, the transfer books of the depository may from time to time be closed to ADS issuances. The investor will be unable to trade the ADSs until the procedures are completed.

Converting ADSs to Common Shares Trading in Hong Kong

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

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

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

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

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

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

Depositary Requirements

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

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

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

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

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-3ASR (File Number 333-249642) and prospectus supplement filed on November 3, 2020 for our public offering of our common shares in connection with the listing on the Hong Kong Stock Exchange in November 2020. The public offering closed in November 2020. Credit Suisse (Hong Kong) Limited, Merrill Lynch (Asia Pacific) Limited, and UBS AG Hong Kong Branch, were the joint representatives of the underwriters for our public offering. We offered and sold an aggregate of 9,786,500 common shares at a public offering price of HK\$1,190.00 per common share (without taking into account of the one-for-ten share split effective from March 10, 2021 and ADS ratio change from one ADS representing one common share to one ADS representing ten common shares effected on April 8, 2022), taking into account the ADSs sold upon the exercise of the over-allotment option by our underwriters. We raised US\$1,482.8 million in net proceeds from our public offering after deducting underwriting commissions and discounts and the offering expenses payable by us.

The total expenses incurred for our company's account in connection with our public offering was US\$19.7 million, which included US\$13.6 million in underwriting discounts and commissions for the public offering and US\$6.1 million in other costs and expenses for our public offering. None of the transaction expenses included payments to directors or officers of our company or their associates, persons owning more than 10% or more of our equity securities or our affiliates. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates.

For the period from November 9, 2020, the closing date of our public offering, to May 31, 2023, we did not use any net proceeds from our public offering.

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, 2023, 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, 2023.

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, 2023 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 its subsidiaries (the "Company") as of May 31, 2023, 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, 2023, 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, 2023, of the Company and our report dated September 25, 2023, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's 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.

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 25, 2023

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 16. [Reserved]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Denny Ting Bun 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 (PCAOB ID No 1113), 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.

(in thousands of US\$)	For the Years Ended May 31,	
	2022	2023
Audit fees ⁽¹⁾	1,652	1,970
Audit related fees ⁽²⁾	456	598
Tax fees ⁽³⁾	120	147
All other fees	149	110

- (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 for issuing comfort letter, rendering of listing advice and other audit related services to our company, including our consolidated subsidiaries and the audit services provided to 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

On July 26, 2022, our board of directors authorized a share repurchase program, under which we may repurchase up to US\$400 million of the Company's ADSs or common shares during the period from July 28, 2022 through May 31, 2023. Our board of directors further authorized to extend such share repurchase program by twelve months through May 31, 2024.

As of May 31, 2023, we repurchased an aggregate of 5,946,314 ADSs under this share repurchase program. The table below is a summary of the shares repurchased by us.

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS (\$)	Total Number of ADSs Purchased as Part of the Publicly Announced Plan	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plan (\$)
August 1, 2022 to August 31, 2022	65,000	28.1	65,000	398,161,590
September 1, 2022 to September 30, 2022	745,000	24.6	810,000	379,849,112
October 1, 2022 to October 31, 2022	1,017,726	23.5	1,827,726	355,887,998
November 1, 2022 to November 30, 2022	1,037,134	26.9	2,864,860	328,012,201
December 1, 2022 to December 31, 2022	240,600	29.1	3,105,460	321,012,520
January 1, 2023 to January 31, 2023	128,200	41.5	3,233,660	315,689,501
February 1, 2023 to February 28, 2023	768,825	41.2	4,002,485	284,021,083
March 1, 2023 to March 31, 2023	662,230	38.2	4,664,715	258,757,469
April 1, 2023 to April 30, 2023	587,001	39.6	5,251,716	235,490,055
May 1, 2023 to May 31, 2023	694,598	39.0	5,946,314	208,371,742
Total	5,946,314	32.2	5,946,314	208,371,742

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 revised our articles of association to comply with Rule 19C.07(4) of the Hong Kong Listing Rules in March 2021 and we will hold an annual general meeting every year for as long as our common shares remain listed on the Hong Kong Stock Exchange. The next annual general meeting is expected to be held before November 30, 2023.

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 16I. DISCLOSURE REGARDING FOREIGN JURISDICTION THAT PREVENT INSPECTIONS

On October 21, 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended May 31, 2022. Our auditor, a registered public accounting firm that the PCAOB was unable to inspect or investigate completely for the fiscal year ended May 31, 2022, issued the audit report for us for the fiscal year ended May 31, 2022.

On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F.

As of the date of this annual report, to our knowledge, (i) no governmental entities in the Cayman Islands or mainland China own shares of New Oriental Education & Technology Group Inc. or the variable interest entities, (ii) the mainland China governmental entities do not have a controlling financial interest in New Oriental Education & Technology Group Inc. or the variable interest entities, (iii) none of the members of the board of directors of New Oriental Education & Technology Group Inc. or our operating entities, including the variable interest entities, is an official of the Chinese Communist Party, and (iv) none of the currently effective memorandum and articles of association (or equivalent organizing document) of New Oriental Education & Technology Group Inc. or the variable interest entities contains any charter of the Chinese Communist Party.

ITEM 16J. INSIDER TRADING POLICIES

Not applicable.

ITEM 16K. CYBERSECURITY

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.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	<u>Second Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.1 of the Registrant's Form 6-K (File No. 001-32993) filed with the Commission on March 10, 2021)</u>
2.1	<u>Form of Registrant American Depositary Receipt (incorporated by reference to the prospectus filed with the Commission on March 10, 2021 pursuant to Rule 424(b)(3) (File No. 333-253812) under the registration statement on Form F-6 filed with the Commission on March 3, 2021)</u>
2.2	<u>Registrant's Specimen Certificate for Common Shares (incorporated herein by reference to Exhibit 2.2 to the annual report on Form 20-F (File No. 001-32993) filed by the Registrant with the Securities and Exchange Commission on September 24, 2021)</u>
2.3	<u>Deposit Agreement, dated as of September 12, 2006, between the Registrant, the depository and holders of the American Depositary Receipts (incorporated by reference to Exhibit 4.2 of the Registrant's F-3 registration statement (File No. 333-249642) filed with the Commission on October 23, 2020)</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>Form of Supplement and Amendment No. 2 to Deposit Agreement 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>Form of Supplement and Amendment No. 3 to Deposit Agreement 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>Form of Amendment No. 4 to Deposit Agreement between the Registrant, the depository and holders and beneficial owners of American Depositary Receipts issued thereunder (incorporated by reference to Exhibit (a)(v) of post-effective amendment No. 1 to the registration statement on Form F-6 (File No. 333-253812), filed with the Commission on April 8, 2022)</u>
2.8	<u>Trust Deed, dated as of July 2, 2020, between the Registrant and DB Trustees (Hong Kong) Limited (incorporated herein by reference to Exhibit 2.7 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on September 16, 2020)</u>
2.9	<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 (incorporated herein by reference to Exhibit 2.8 to the annual report on Form 20-F (File No. 001-32993) filed by the Registrant with the Securities and Exchange Commission on September 16, 2020)</u>
2.10	<u>Description of Securities (incorporated herein by reference to Exhibit 2.10 to the annual report on Form 20-F (File No. 001-32993) filed by the Registrant with the Securities and Exchange Commission on September 29, 2022)</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>

<u>Exhibit Number</u>	<u>Description of Document</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>
4.4	<u>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).</u>
4.5	<u>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).</u>
4.6	<u>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).</u>
4.7	<u>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).</u>
4.8	<u>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).</u>
4.9	<u>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).</u>
4.10	<u>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).</u>
4.11	<u>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, and Amendment No. 3 dated as of September 1, 2021 by and between Beijing Pioneer and New Oriental China (incorporated by reference to Exhibit 4.11 of the Registrant's annual report on Form 20-F (File No. 001-32993) filed with the Securities and Exchange Commission on September 24, 2021).</u>

<u>Exhibit Number</u>	<u>Description of Document</u>
4.12	<u>English Translation of Call 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).</u>
4.13	<u>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).</u>
4.14	<u>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 (the predecessor of East Buy 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).</u>
4.15	<u>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).</u>
4.16	<u>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).</u>
4.17	<u>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).</u>
4.18	<u>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).</u>
4.19	<u>English Translation of Letters of Undertaking, dated as of May 10, 2018, issued by (j) 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 (the predecessor of East Buy 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).</u>
4.20	<u>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. (incorporated herein by reference to Exhibit 4.20 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on September 16, 2020).</u>
4.21	<u>English Translation of Letter of Acceptance, dated as of October 10, 2019, issued by Beijing Dongfang Youbo Network Technology Co., Ltd. (incorporated herein by reference to Exhibit 4.21 to the annual report on Form 20-F filed by the Registrant with the Securities and Exchange Commission on September 16, 2020).</u>

Exhibit Number	Description of Document
4.22*	English Translation of Second Supplemental Agreement, dated February 1, 2021, among Beijing Dexin Dongfang Network Technology Co., Ltd., Zhuhai Chongsheng Heli Network Technology Co., Ltd., Xi'an Ruiying Huishi Network Technology Co., Ltd., Hainan Haiyue Dongfang Network Technology Co., Ltd., Wuhan Dongfang Youbo Network Technology Co., Ltd., Beijing New Oriental Xuncheng Network Technology Co., Ltd. and its subsidiaries and shareholders
4.23*	English Translation of Third Supplemental Agreement, dated May 24, 2023, among Beijing Dexin Dongfang Network Technology Co., Ltd., Zhuhai Chongsheng Heli Network Technology Co., Ltd., Xi'an Ruiying Huishi Network Technology Co., Ltd., Hainan Haiyue Dongfang Network Technology Co., Ltd., Wuhan Dongfang Youbo Network Technology Co., Ltd., Beijing New Oriental Xuncheng Network Technology Co., Ltd. and its subsidiaries and shareholders
4.24*	English Translation of Letter of Acceptance, dated as of January 12, 2022, issued by Beijing Xinyuanfang Human Resource Service Co., Ltd.
4.25*	English Translation of Letter of Acceptance, dated as of January 12, 2022, issued by Dongfang Optimization (Beijing) Technology Co., Ltd.
4.26*	English Translation of Letter of Acceptance, dated as of January 4, 2023, issued by Oriental Selection (Beijing) 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)
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.

SIGNATURES

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

**NEW ORIENTAL EDUCATION & TECHNOLOGY
GROUP INC.**

By: /s/ Chenggang Zhou

Name: Chenggang Zhou

Title: Chief Executive Officer

Date: September 25, 2023

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)
East Buy Holding Limited	Cayman	New Oriental Education & Technology Group Inc. (Cayman Islands)
New Oriental Xuncheng Technology (HK) Limited	Hong Kong	East Buy Holding Limited (Cayman Islands)
Beijing Dexin Dongfang 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, 2023, including:
- 79 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
 - 80 wholly owned subsidiaries.

Section B
Independent Auditor's Report

The following section contains the Independent Auditor's Report and the annual results of the Company for the fiscal year ended May 31, 2023.

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

*INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2022 AND 2023*

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To the Shareholders of New Oriental Education & Technology Group Inc.
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of New Oriental Education & Technology Group Inc. (the “**Company**”) and its subsidiaries (collectively referred to as “**the Group**”) set out on pages 186 to 249, which comprise the consolidated balance sheet as at May 31, 2023, and the consolidated statement of operations and the consolidated statement of comprehensive income/(loss), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at May 31, 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (“**U.S. GAAP**”).

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by Hong Kong Institute of Certified Accountants (“**HKICPA**”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s code of Ethics for Professional Accountants (“**the Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Fair value measurement of Level 3 available-for-sale investments

As of May 31, 2023, the carrying value of the Company’s financial instruments measured at fair value that are classified as Level 3 amounted to US\$141.7 million, which are accounted as available-for-sale investments. The available-for-sale investments classified within Level 3 are measured at fair value using the income approach or market approach.

We identified the fair value measurement of Level 3 available-for-sale investments as a key audit matter because of the complex proprietary models and unobservable inputs management uses to estimate the fair value. This required a high degree of auditor’s judgment and an increased extent of effort, including the need to involve our fair value specialists who possess significant quantitative and modelling expertise, to audit and evaluate the appropriateness of these models and inputs.

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

- We tested the effectiveness of controls over management’s fair value estimate of Level 3 available-for-sale investments, including those related to the valuation methodology used to estimate the fair value, the key inputs used in the valuation and the mathematical accuracy of the valuation.
- We evaluated management’s ability to appropriately estimate fair value by comparing management’s historical estimates to actual results on a sample basis, taking into account changes in market conditions.
- We evaluated the consistency by which the management has applied significant unobservable valuation assumptions.
- With the assistance of our valuation specialists, we evaluated the reasonableness of the valuation models and key inputs used by the management in determining the fair value of the Level 3 available-for-sale investments including but not limited to the revenue growth rate and weighted average cost of capital, and tested the mathematical accuracy of the fair value calculations.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with U.S. GAAP, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is To Kim Lai, Ricky.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
September 25, 2023

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED BALANCE SHEETS

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

	As of May 31,	
	2022	2023
	US\$	US\$
ASSETS		
Current assets		
Cash and cash equivalents	1,148,637	1,662,982
Restricted cash, current	—	110,892
Term deposits, current	1,140,066	855,784
Short-term investments	1,902,254	1,477,843
Accounts receivable, net of allowance of US\$1,212 and US\$1,599 as of May 31, 2022 and 2023, respectively	16,430	33,074
Inventory, net	27,925	52,689
Prepaid expenses and other current assets, net of allowance of US\$456 and US\$691 as of May 31, 2022 and 2023, respectively	215,402	211,240
Amounts due from related parties, current	23,245	9,383
Total current assets	4,473,959	4,413,887
Restricted cash, non-current	45,890	31,553
Term deposits, non-current	—	462,734
Property and equipment, net	402,690	359,760
Land use rights, net	3,627	3,321
Amounts due from related parties, non-current	3,365	1,735
Long-term deposits	33,409	26,492
Intangible assets, net	2,800	25,179
Goodwill, net	70,803	105,514
Long-term investments, net (including available-for-sale investment of US\$173,003 and US\$159,588 as of May 31, 2022 and 2023, respectively)	437,919	399,585
Deferred tax assets, non-current, net	20,038	55,933
Right-of-use assets	531,102	439,535
Other non-current assets	9,064	67,230
Total assets	6,034,666	6,392,458

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

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

	As of May 31,	
	2022	2023
	US\$	US\$
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable (including accounts payable of the consolidated variable interest entities without recourse to the Company of US\$21,862 and US\$69,102 as of May 31, 2022 and 2023, respectively)	22,289	69,764
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\$499,721 and US\$553,883 as of May 31, 2022 and 2023, respectively)	510,264	569,437
Income taxes payable (including income taxes payable of the consolidated variable interest entities without recourse to the Company of US\$63,187 and US\$64,890 as of May 31, 2022 and 2023, respectively)	75,650	118,049
Amounts due to related parties (including amounts due to related parties of the consolidated variable interest entities without recourse to the Company of US\$226 and US\$346 as of May 31, 2022 and 2023, respectively)	226	346
Deferred revenue (including deferred revenue of the consolidated variable interest entities without recourse to the Company of US\$927,187 and US\$1,308,276 as of May 31, 2022 and 2023, respectively)	933,062	1,337,630
Operating lease liabilities, current (including operating lease liabilities, current of the consolidated variable interest entities without recourse to the Company of US\$164,806 and US\$149,127 as of May 31, 2022 and 2023, respectively)	168,623	155,752
Total current liabilities	1,710,114	2,250,978
Deferred tax liabilities, non-current (including deferred tax liabilities, non-current of the consolidated variable interest entities without recourse to the Company of US\$19,048 and US\$23,602 as of May 31, 2022 and 2023, respectively)	19,240	23,849
Unsecured senior notes (including unsecured senior notes of the consolidated variable interest entities without recourse to the Company of nil and nil as of May 31, 2022 and May 31, 2023, respectively)	65,394	14,653
Operating lease liabilities, non-current (including operating lease liabilities, non-current of the consolidated variable interest entities without recourse to the Company of US\$442,843 and US\$285,667 as of May 31, 2022 and 2023, respectively)	446,394	288,190
Total liabilities	2,241,142	2,577,670

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

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

	As of May 31,	
	2022	2023
	US\$	US\$
Commitments and contingencies (Note 20)		
Equity		
Common shares (US\$0.001 par value; 3,000,000,000 shares authorized as of May 31, 2022 and 2023; 1,696,966,183 and 1,643,162,653 shares issued as of May 31, 2022 and 2023; 1,696,966,183 and 1,643,162,653 shares outstanding as of May 31, 2022 and 2023, respectively)	1,697	1,703
Treasury stock	—	(59)
Additional paid-in capital	2,061,613	1,939,585
Statutory reserves	447,820	464,662
Retained earnings	1,065,362	1,225,861
Accumulated other comprehensive income/(loss)	129,014	(27,404)
Total New Oriental Education & Technology Group Inc. shareholders' equity	<u>3,705,506</u>	<u>3,604,348</u>
Non-controlling interests	88,018	210,440
Total equity	<u>3,793,524</u>	<u>3,814,788</u>
Total liabilities and equity	<u>6,034,666</u>	<u>6,392,458</u>

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

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	For the years ended May 31,		
	2021 US\$	2022 US\$	2023 US\$
Net revenues			
Net service revenues	4,230,638	3,050,022	2,544,729
Net product revenues	45,901	55,224	453,031
Total net revenues	4,276,539	3,105,246	2,997,760
Operating cost and expenses			
Cost of revenues	(2,036,875)	(1,754,291)	(1,409,438)
Selling and marketing	(600,778)	(466,895)	(444,693)
General and administrative	(1,489,826)	(1,866,573)	(953,583)
Impairment loss on intangible assets and goodwill	(31,794)	—	—
Total operating cost and expenses	(4,159,273)	(4,087,759)	(2,807,714)
Operating income/(loss)	117,266	(982,513)	190,046
Other income/(expense)			
Interest income	141,511	123,542	114,453
Interest expense	(6,747)	(4,050)	(707)
Realized gain from long-term investments	3,535	22,004	767
Impairment loss from long-term investments	(40,207)	(129,350)	(8,056)
Loss from fair value change of investments	(3,824)	(14,933)	(860)
Loss on deconsolidation of subsidiaries	—	(79,609)	—
Miscellaneous income, net	103,443	32,411	12,888
Income/(loss) before income taxes and loss from equity method investments	314,977	(1,032,498)	308,531
Provision for income taxes:			
Current	(127,313)	(44,378)	(97,594)
Deferred	43,725	(91,934)	31,528
Provision for income taxes	(83,588)	(136,312)	(66,066)
Loss from equity method investments	(1,368)	(51,466)	(7,102)
Net income/(loss)	230,021	(1,220,276)	235,363
Less: Net (loss)/income attributable to non-controlling interests	(104,393)	(32,555)	58,022
Net income/(loss) attributable to New Oriental Education & Technology Group Inc.'s shareholders	334,414	(1,187,721)	177,341
Net income/(loss) per common share*(Note 18)			
- Basic	0.20	(0.70)	0.11
- Diluted	0.20	(0.70)	0.10
Weighted average shares used in calculating basic and diluted net income/(loss) per common share*			
- Basic	1,645,463,440	1,696,419,232	1,678,264,547
- Diluted	1,651,982,384	1,696,419,232	1,685,631,987

* Retrospectively restated for the effect of stock split. (Note 15)

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

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

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

	For the years ended May 31,		
	2021 US\$	2022 US\$	2023 US\$
Net income/(loss)	230,021	(1,220,276)	235,363
Other comprehensive income/(loss), net of tax			
Foreign currency translation adjustment	327,236	(118,872)	(155,517)
Purchase of non-controlling interests	59	—	—
Unrealized gain/(loss) on available-for-sale investments, net of tax effect of US\$4,014, US\$1,316 and US\$513 for the years ended May 31, 2021, 2022 and 2023, respectively	27,318	(12,896)	(2,279)
Other comprehensive income/(loss), net of tax	354,613	(131,768)	(157,796)
Comprehensive income/(loss)	584,634	(1,352,044)	77,567
Comprehensive (loss)/income attributable to non-controlling interests	(102,445)	(31,539)	56,644
Comprehensive income/(loss) attributable to New Oriental Education & Technology Group Inc.'s shareholders	<u>687,079</u>	<u>(1,320,505)</u>	<u>20,923</u>

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

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

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

	Common shares		Additional paid-in capital	Treasury stock	Accumulated other comprehensive (loss)/income	Statutory reserves	Retained earnings	Total New Oriental Education & Technology Group Inc. shareholders' equity	Non- controlling interests	Total shareholders' equity
	Number*	US\$								
Balance as of May 31, 2020	1,585,400,800	1,588	456,088	(3)	(90,867)	380,078	1,986,411	2,733,295	136,516	2,869,811
Issuance of treasury stock and common shares for nonvested equity shares ("NES")	5,706,350	3	(6)	3	—	—	—	—	—	—
Vested NES	1,110,000	1	(1)	—	—	—	—	—	—	—
HK initial public offering, net of issuance cost	97,865,000	98	1,482,670	—	—	—	—	1,482,768	—	1,482,768
Share-based compensation expenses	—	—	29,353	—	—	—	—	29,353	39,527	68,880
Exercise of share options in East Buy Holding Limited ("East Buy")	—	—	—	—	—	—	—	—	1,929	1,929
Transfer to statutory reserves	—	—	—	—	—	67,426	(67,426)	—	—	—
Net income	—	—	—	—	—	—	334,414	334,414	(104,393)	230,021
Foreign currency translation adjustment	—	—	—	—	325,288	—	—	325,288	1,948	327,236
Unrealized gain on available-for-sale investments, net of tax effect of US\$4,014	—	—	—	—	27,318	—	—	27,318	—	27,318
Purchase of non-controlling interests	—	—	(19,092)	—	59	—	—	(19,033)	(626)	(19,659)
Shares issuance of East Buy	—	—	(128)	—	—	—	—	(128)	30,000	29,872
Balance as of May 31, 2021	<u>1,690,082,150</u>	<u>1,690</u>	<u>1,948,884</u>	<u>—</u>	<u>261,798</u>	<u>447,504</u>	<u>2,253,399</u>	<u>4,913,275</u>	<u>104,901</u>	<u>5,018,176</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	Accumulated other comprehensive income/(loss)	Statutory reserves	Retained earnings	Total New Oriental Education & Technology Group Inc. shareholders' equity	Non- controlling interests	Total shareholders' equity
	Number*	US\$							
Balance as of May 31, 2021	1,690,082,150	1,690	1,948,884	261,798	447,504	2,253,399	4,913,275	104,901	5,018,176
Vested NES	6,884,033	7	(7)	—	—	—	—	—	—
Share-based compensation expenses	—	—	118,487	—	—	—	118,487	14,481	132,968
Exercise of share options in East Buy	—	—	—	—	—	—	—	175	175
Transfer to statutory reserves	—	—	—	—	316	(316)	—	—	—
Net loss	—	—	—	—	—	(1,187,721)	(1,187,721)	(32,555)	(1,220,276)
Foreign currency translation adjustment	—	—	—	(119,888)	—	—	(119,888)	1,016	(118,872)
Unrealized loss on available-for-sale investments, net of tax effect of US\$1,316	—	—	—	(12,896)	—	—	(12,896)	—	(12,896)
Loss on sales of restricted shares	—	—	(5,751)	—	—	—	(5,751)	—	(5,751)
Balance as of May 31, 2022	<u>1,696,966,183</u>	<u>1,697</u>	<u>2,061,613</u>	<u>129,014</u>	<u>447,820</u>	<u>1,065,362</u>	<u>3,705,506</u>	<u>88,018</u>	<u>3,793,524</u>

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY - CONTINUED

(All amounts in thousands, except for share data)

	Common shares		Additional paid-in capital	Treasury stock	Accumulated other comprehensive income/(loss)	Statutory reserves	Retained earnings	Total New Oriental Education & Technology Group Inc. shareholders' equity	Non- controlling interests	Total shareholders' equity
	Number*	US\$								
		US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Balance as of May 31, 2022	1,696,966,183	1,697	2,061,613	—	129,014	447,820	1,065,362	3,705,506	88,018	3,793,524
Share repurchase	(59,463,140)	—	(191,569)	(59)	—	—	—	(191,628)	—	(191,628)
Vested NES	5,659,610	6	(6)	—	—	—	—	—	—	—
Share-based compensation expenses	—	—	69,547	—	—	—	—	69,547	20,241	89,788
Transfer to statutory reserves	—	—	—	—	—	16,842	(16,842)	—	—	—
Net income	—	—	—	—	—	—	177,341	177,341	58,022	235,363
Foreign currency translation adjustment	—	—	—	—	(154,139)	—	—	(154,139)	(1,378)	(155,517)
Unrealized loss on available-for-sale investments, net of tax effect of US\$513	—	—	—	—	(2,279)	—	—	(2,279)	—	(2,279)
Non-controlling interests recognized through business acquisitions (Note 3)	—	—	—	—	—	—	—	—	32,659	32,659
Exercise of share options in East Buy	—	—	—	—	—	—	—	—	12,878	12,878
Balance as of May 31, 2023	<u>1,643,162,653</u>	<u>1,703</u>	<u>1,939,585</u>	<u>(59)</u>	<u>(27,404)</u>	<u>464,662</u>	<u>1,225,861</u>	<u>3,604,348</u>	<u>210,440</u>	<u>3,814,788</u>

* Retrospectively adjusted for the effect of stock split. (Note 15)

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,		
	2021 US\$	2022 US\$	2023 US\$
Cash flows from operating activities			
Net income/(loss)	230,021	(1,220,276)	235,363
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities			
Depreciation of property and equipment	225,657	192,291	117,036
Amortization of intangible assets	4,524	1,933	5,583
Amortization of land use rights	262	205	84
Loss on disposal of property and equipment	5,380	—	2,167
Loss on deconsolidation of subsidiaries	—	79,609	—
Goodwill impairment	28,858	—	—
Impairment loss from intangible assets	2,936	—	—
Impairment loss from long-term investments	40,207	129,350	8,056
Impairment loss from other long-lived assets	33,769	435,662	—
Realized gain from disposal of long-term investments	(3,535)	(22,004)	—
Loss from fair value change of investments	3,824	14,933	860
Share-based compensation expenses	68,880	132,968	89,788
Allowance for doubtful accounts	3,106	(81)	747
Loss from equity method investments	1,368	51,466	7,102
Deferred income taxes	(44,644)	89,565	(31,528)
Amortization of discounts and issuance costs of the unsecured senior notes	548	465	221
Gain from extinguishment of debt	—	(12,579)	(2,347)
Changes in operating assets and liabilities			
Accounts receivable	(4,627)	(8,113)	(3,870)
Inventory	3,752	1,820	(21,899)
Prepaid expenses and other current assets	(15,229)	42,144	(17,744)
Amounts due from related parties	(661)	(22,918)	14,243
Long-term deposits	(5,020)	23,007	5,006
Right-of-use assets	(252,297)	1,268,055	60,474
Accounts payable	12,809	(15,122)	44,048
Accrued expenses and other current liabilities	122,147	(315,830)	83,394
Income taxes payable	33,533	2,179	41,653
Amounts due to related parties	(1,667)	3,713	138
Deferred revenue	420,340	(925,048)	469,339
Operating lease liabilities	215,844	(1,207,847)	(136,906)
Net cash provided by/(used in) operating activities	<u>1,130,085</u>	<u>(1,280,453)</u>	<u>971,008</u>

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

	For the years ended May 31,		
	2021 US\$	2022 US\$	2023 US\$
Cash flows from investing activities			
Purchase of term deposits	(1,203,630)	(360,633)	(1,236,849)
Proceeds from maturity of term deposits	296,077	307,722	1,031,420
Payments for short-term investments	(4,253,957)	(540,834)	(2,074,896)
Proceeds from maturity of short-term investments	3,452,642	2,040,999	2,397,622
Purchase of property and equipment	(429,197)	(150,738)	(143,045)
Proceeds from disposal of property and equipment	45,392	5,387	1,323
Payments for long-term investments	(106,965)	(82,082)	(13,597)
Proceeds from disposal of long-term investments	24,623	12,350	—
Business acquisitions, net of cash acquired of US\$430, nil and US\$5,065 for the years ended May 31, 2021, 2022 and 2023, respectively (Note 3)	(12,701)	—	886
Purchase of land use rights	(7,151)	—	—
Proceeds from disposal of land use rights	—	4,990	2,112
Loans provided to related parties	(10,486)	(41,226)	(2,387)
Repayment of loans provided to related parties	27,714	6,510	—
Deconsolidation of subsidiaries	—	(33,913)	—
Net cash (used in)/provided by investing activities	(2,177,639)	1,168,532	(37,411)

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

	For the years ended May 31,		
	2021 US\$	2022 US\$	2023 US\$
Cash flows from financing activities			
Net proceeds from HK initial public offering	1,482,768	—	—
Proceeds from issuances of common shares upon exercise of share options	1,929	175	12,878
Cash paid for shares repurchase	—	—	(191,628)
Cash paid for employees' individual income taxes on withheld shares from exercise of NES	(16,168)	(7,956)	(2,174)
Payments made after business acquisitions	(1,741)	—	(17,179)
Repayment of long-term debt	(120,000)	—	—
Proceeds from issuance of unsecured senior notes	297,083	—	—
Repurchase of unsecured senior notes	—	(221,997)	(48,764)
Share issuances of East Buy	29,872	—	—
Purchase of non-controlling interests	(19,659)	—	—
Other financing activities	—	(1,080)	—
Net cash provided by/(used in) financing activities	1,654,084	(230,858)	(246,867)
Effects of exchange rate changes	106,173	(94,821)	(75,830)
Net change in cash, cash equivalents and restricted cash	712,703	(437,600)	610,900
Cash, cash equivalents and restricted cash at beginning of year	919,424	1,632,127	1,194,527
Cash, cash equivalents and restricted cash at end of year	1,632,127	1,194,527	1,805,427
Supplement disclosure of cash flow information:			
Income taxes paid	144,377	53,049	55,195
Interests paid	4,219	5,048	798
Non-cash investing and financing activities			
Payable for investments and acquisitions	6,536	1,097	9,531
Payable for purchase of property and equipment	79,132	27,240	27,093

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, 2022 AND 2023**

(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 subsidiaries, the consolidated 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 educational services and test preparation courses, overseas study consulting services and educational material and distribution, as well as provision of private label products and livestreaming e-commerce and other services.

On July 24, 2021, the General Office of the Communist Party of China Central Committee and the General Office of the State Council of the PRC jointly issued the “Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education (compulsory education includes primary school education of six years and middle school education of three years, together as the “Compulsory Stage Education”)” (the “Opinion”). The key provisions of the Opinion include, but are not limited to: (i) institutions providing after-school tutoring (the “AST”) services on academic subjects in relation to the Compulsory Stage Education (“Academic AST Institutions”) are required to be registered as non-profit organization, (ii) Academic AST Institutions providing online tutoring services are required to make an application to renew their operating permit in order to maintain the internet content provider license (the “ICP License”); (iii) foreign investors shall not control or hold interest in Academic AST Institutions by means of direct investment, merger and acquisition, franchise or contractual arrangements; and (iv) certain restrictions on timing and fee of academic AST services.

On September 7, 2021, to implement the Opinion, the Chinese Ministry of Education (the “MOE”) published on its website that the MOE, together with two other government authorities, issued a circular requiring all Academic AST Institutions to complete registration as non-profit by the end of 2021, and all Academic AST Institutions shall, before completing such registration, suspend enrollment of students and charging fees.

In compliance with the Opinion and applicable rules, regulations and measures, the Company decided in November 2021 to cease offering services relating to academic subjects to students from kindergarten through grade nine (“K-9 Academic AST Services”) in the mainland of China by the end of December 2021. The revenues from offering K-9 Academic AST Services accounted for a significant portion of the Company’s total revenues for the years ended May 31, 2021 and 2022. The Company continued to provide academic services to non K-9 students and non-academic services under the guidance from relevant government authorities. The Company also early terminated certain leased office spaces and learning centers and disposed relevant leasehold improvements and electronic equipment due to the downsized capacity relating to the cessation of K-9 Academic AST Services in mainland China for the year ended May 31, 2022, which are disclosed in Note 6 and 13.

On April 7, 2021, the State Council promulgated the Amended Implementation Rules for the Private Education Law, which became effective on September 1, 2021, or the Amended Implementation Rules. Under the Amended Implementation Rules, the private schools providing compulsory education are prohibited from being controlled through contractual arrangement and conducting transactions with its related parties. As a result, the master exclusive service agreement was further amended and effective from September 1, 2021, to exclude Beijing Changping New Oriental Bilingual School (“Changping School”) and Beijing New Oriental Yangzhou Foreign Language School (“Yangzhou School”) from such agreement. On August 31, 2021, the Company ceased its ability to use its power under the contractual arrangements to direct the relevant activities that would most significantly affect the economic performance of the Company’s private schools due to implications of the Amended Implementation Rules. Accordingly, the Company deconsolidated Changping School and Yangzhou School, two private schools that provided compulsory education, in September 2021 in compliance with the Amended Implementation Rules. A deconsolidation loss of US\$79,609, the carrying amount of the net assets of the schools, was recognized in “Loss on deconsolidation of subsidiaries” on its consolidated financial statements for the year ended May 31, 2022. The deconsolidation of Changping School and Yangzhou School did not meet the definition of a discontinued operation per ASC Subtopic 205-20, *Presentation of Financial Statements-Discontinued Operations*, as the deconsolidation did not represent a shift in strategy nor had a major impact to the Group’s operation and financial results.

As of May 31, 2023, details of the Company’s major subsidiaries, the consolidated VIEs and the VIEs’ major subsidiaries and schools were as follows:

<u>Name</u>	<u>Date of incorporation or acquisition</u>	<u>Place of incorporation (or establishment)/ operation</u>	<u>Legal ownership</u>	<u>Principal activity</u>
Major subsidiaries of the Company:				
Beijing Decision Education & Consulting Company Limited (“Beijing Decision”)	April 20, 2005	PRC	100%	Educational technology and management services
Beijing Hewstone Technology Company Limited (“Beijing Hewstone”)	April 20, 2005	PRC	100%	Educational software development
Elite Concept Holdings Limited (“Elite Concept”)	December 3, 2007	Hong Kong	100%	Educational consulting
Winner Park Limited (“Winner Park”)	December 9, 2008	Hong Kong	100%	Educational consulting
Smart Shine International Limited (“Smart Shine”)	December 9, 2008	Hong Kong	100%	Educational consulting
Beijing Pioneer Technology Company Limited (“Beijing Pioneer”)	January 8, 2009	PRC	100%	Educational software development
Beijing Smart Wood Software Technology Company Limited (“Beijing Smart Wood”)	December 21, 2011	PRC	100%	Educational consulting and software development
East Buy (Formerly known as “Koolearn Technology Holding Limited”)	February 7, 2018	Cayman Islands	54.95%	Investment holding
New Oriental Xuncheng Technology (HK) Limited (“Koolearn Tech”)	March 2, 2018	Hong Kong	54.95%	Investment holding
Beijing Dexin Dongfang Network Technology Co., Ltd. (“Dexin Dongfang”)	March 21, 2018	PRC	54.95%	Software and technology services
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
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
Hangzhou New Oriental Advanced Study School	July 21, 2005	PRC	N/A	Language training and test preparation
Guangzhou Haizhu District Privately-Funded New Oriental Training School	November 5, 2000	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	Educational material and content development and distribution
Beijing New Oriental Vision Overseas Consultancy Co., Ltd.	February 19, 2004	PRC	N/A	Oversea study consulting service
Dongfang Optimization (Beijing) Technology Co., Ltd. (“Oriental Optimization”)	October 27, 2021	PRC	N/A	Private label products and livestreaming e-commerce
Oriental Selection (Beijing) Technology Co., Ltd. (“Oriental Selection”)	December 7, 2021	PRC	N/A	Private label products and livestreaming e-commerce

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 the consolidated VIEs, New Oriental China and its subsidiaries and schools and Xuncheng and its subsidiaries. Since the education business 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 and e-commerce 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 of education businesses.

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

The Company and its wholly owned subsidiaries in China (the "WFOEs") 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 the 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 the Company 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. The WFOEs entered into agreements whereby the WFOEs sell various self-developed educational software to the subsidiaries or schools of New Oriental 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.

As discussed in the preceding paragraphs, the Group further amended its master exclusive service agreement on September 1, 2021 to exclude two compulsory-education schools from such agreement. As a result, the wholly-owned subsidiaries in China stopped providing any exclusive services to or receive any fees from those two schools.

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 the 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 East Buy, entered into certain contractual arrangements (the "Contractual Arrangements") with Xuncheng and the shareholders of Xuncheng, which enable East Buy to obtain control over Xuncheng and its subsidiaries (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.

Risks in relation to the VIE structure

The Company believes that the contractual arrangements with the consolidated VIEs and their respective shareholders are in compliance with the PRC laws and regulations and are legally enforceable as of May 31, 2023. However, the 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;
- confiscate any of income of the Company that it deems to be obtained through illegal operations;
- discontinue or restrict the operations of any related-party transactions between the Company's PRC subsidiaries and the VIEs;
- restrict right of the Company to collect revenues or limit the Company'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;
- restrict or prohibit the Company's use of the proceeds of the further offering to finance the Group's business and operations in China; or
- take other regulatory or enforcement actions against the Group that could be harmful to its business.

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 12.3% of the total common shares outstanding as of May 31, 2023. 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		
	2022	2023	
	US\$	US\$	
Total current assets	1,909,663	2,366,136	
Total non-current assets	1,221,847	1,218,363	
Total assets	<u>3,131,510</u>	<u>3,584,499</u>	
Total current liabilities	1,676,989	2,145,624	
Total non-current liabilities	461,891	309,269	
Total liabilities	<u>2,138,880</u>	<u>2,454,893</u>	
	For the years ended May 31,		
	2021	2022	2023
	US\$	US\$	US\$
Net revenues	4,270,169	3,093,340	2,982,945
Net income/(loss)	663,099	(1,116,151)	593,183

The following are cashflows of the VIEs and VIEs' subsidiaries for the years ended May 31, 2021, 2022 and 2023:

	For the years ended May 31		
	2021	2022	2023
	US\$	US\$	US\$
Net cash provided by/(used in) operating activities	1,046,695	(1,517,697)	652,523
Net cash (used in)/provided by investing activities	(789,120)	1,174,720	294,911
Net cash (used in)/provided by financing activities	(16,658)	155,451	(19,353)

For the years ended May 31, 2021, 2022 and 2023, for all of the VIEs and VIEs' subsidiaries, excluding inter-company transactions:

- (1) the cash provided by operating activities was US\$1,420,383, the cash used in operating activities was US\$1,227,712, and the cash provided by operating activities was US\$965,336;
- (2) the cash used in investing activities was US\$789,120, the cash provided by investing activities was US\$1,174,720 and US\$294,911, respectively;
- (3) the cash used in financing activities was US\$16,658, nil and US\$19,353, respectively.

The VIEs contributed an aggregate of 99.9%, 99.6% and 99.5% of the consolidated net revenues for the years ended May 31, 2021, 2022 and 2023, respectively. The Company's operations not conducted through contractual arrangements with the VIEs primarily consist of the lease of its commercial property. As of May 31, 2022 and 2023, the VIEs accounted for an aggregate of 51.9% and 56.1%, respectively, of the consolidated total assets, and 95.4%, and 95.2%, respectively, of the consolidated total liabilities. The assets not associated with the VIEs primarily consist of cash and cash equivalents, prepaid expenses, short-term investments and long-term investments.

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 24 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, the consolidated 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. The consolidated financial statements include the financial statements of the Company, its subsidiaries, which are accounted for under the voting interest model, and the consolidated VIEs, VIEs' subsidiaries and schools consolidated under the variable interest entity consolidation model. All inter-company transactions and balances have been eliminated upon consolidation. See "Note 1 Organization and Principal Activities-The VIE Arrangements".

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 revenues 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, allowance for credit losses and the consolidation of the VIEs. 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 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 required by the PRC government authorities related to educational programs and services and establishment of new subsidiaries. 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. Term deposit is classified as either current if the maturities are within one year, or as non-current if the maturities are over one year.

Short-term investments

The Group’s short-term investments include wealth management products with variable interest rates where principal is unsecured and maturities range from one month to less than one year and trading securities. Starting from June 1, 2022, the Group elects the fair value option to record wealth management products in accordance with ASC 825 Financial Instruments. Changes in the fair value are reflected in the consolidated statements of operations. The Group’s trading securities are comprised of money market funds that are acquired and held principally for the purpose of selling them in the near term. The fair value change gains or losses are recorded 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 allowance for doubtful accounts is the Group’s best estimates of the amount of probable credit losses in the Group’s existing accounts receivable balance. The Group provides allowance for doubtful accounts based on historical credit loss experience and a review of the current status and reasonable and supportable forecasts of future events and economic conditions. Accounts receivable and other receivables are presented net of allowance for doubtful accounts.

Inventory, net

Inventory, consisting of publications and private label products, are stated at the lower of cost and net realizable value. Cost of inventory is determined using the weighted average cost method.

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 certificates, from 38.5 years to 50 years.

Intangible assets, net

Intangible assets with an indefinite life are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

Intangible assets with finite lives are initially recorded at cost and amortized on a straight-line basis over the estimated economic useful lives of the respective assets. Acquired intangible assets from business combination are recognized and measured at fair value at the time of acquisition. Those assets represent assets with finite lives and are further amortized on a straight-line basis over the estimated economic useful lives of the respective assets.

The estimated useful lives of intangible assets are as follows:

Trademark	5-10 years
License	20 years
Student base	1.75 years
Favorable lease	8.67 years
Courseware	3-5 years
Copyright	5 years
Distribution channel	5 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 calculated as an amount by which the carrying value of the cost exceed its fair value.

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, 2022 and 2023 relates to its acquisitions of certain companies and schools.

Goodwill is not amortized but 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 and regulatory factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

The Group 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. If as a result of the qualitative assessment, it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount of each reporting unit exceeds its fair value, an impairment loss equal to the difference between the fair value of the reporting unit and its carrying amount will be recorded.

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

- Equity securities with readily determinable fair values

Equity securities with readily determinable fair values are measured at fair value and any changes in fair value are recognized in the consolidated statements of operations.

- Equity securities without readily determinable fair values

The Group elects measurement alternative 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%. 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 investee's shares which are determined to be debt securities, the Group accounts for them as available-for-sale investments when they are not classified as either trading or held-to-maturity investments. Available-for-sale investments are reported at fair value, with unrealized gains and losses, net of taxes recorded in accumulated other comprehensive income or loss. Realized gains or losses on the sales of these securities are recognized in the consolidated statements of operations.

The Group evaluates each individual investment periodically for impairment. For investments where the Group does not intend to sell, the Group evaluates whether a decline in fair value is due to deterioration in credit risk. Credit-related impairment losses, not to exceed the amount that fair value is less than the amortized cost basis, are recognized through an allowance for credit losses on the consolidated balance sheet with corresponding adjustment in the consolidated statements of operations and comprehensive income or loss. Subsequent increases in fair value due to credit improvement are recognized through reversal of the credit losses and corresponding reduction in the allowance for credit losses. Any decline in fair value that is non-credit related is recorded in accumulated other comprehensive income as a component of shareholders' equity.

Unsecured senior notes

Unsecured senior notes are recognized initially at fair value, net of debt discounts or premiums and debt issuance costs. Debt discounts or premiums and debt issuance costs are recorded as a reduction of the principal amount and the related accretion is recorded as interest expense in the consolidated statements of operations over the maturities of the notes using the effective interest method.

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 its subsidiaries and VIEs are classified separately as "non-controlling interests" in the Company's consolidated statements of operations.

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 13% 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 products, guidance materials and the intercompany sales of self-developed software. For general VAT payer, VAT on sales is calculated at 13% 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 are 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.

In accordance with Cai Shui [2020] No. 8, due to the Novel coronavirus (“COVID-19”) pandemic, the VAT on certain services was temporarily exempted from January 2020 to March 2021. As a result, the Group’s educational services were not subject to any VAT from January 1, 2020 to March 31, 2021. The VAT exemption was accounted for in a similar manner as government subsidies.

Revenue recognition

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

As the Group’s private label products sales increased significantly, the Group changed its presentation of revenues in the consolidated statement of operations to separately disclose service revenues and product revenues, and retrospectively applied the presentation change for all periods presented.

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

(a) Net service revenues

The Group provides educational services and test preparation courses, online education and other services. 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 provides consulting services to students regarding overseas studies. Revenues are recognized when promised services are delivered to the Group's customers in an amount of consideration to which the Group expects to be entitled to in exchange for those services. Each contract includes certain milestones and each of the milestones is considered a single performance obligation which is satisfied at the point of time when each of the milestone is reached. The Group estimates the variable consideration to be earned and recognizes revenues related to each milestone when the related milestone is achieved.

When the Group, as a promoter, provides promotion services about the specified goods for the merchants in the form of livestream on the e-commerce platforms, the Group serves as an agent. The Group earns commissions on the sales of the specified goods transacted through the e-commerce platform at the agreed commission rates. Commission revenue of livestreaming e-commerce is recognized at a point in time upon the customers purchase merchants' products through the e-commerce platforms.

For the year ended May 31, 2023, US\$1,825,212, US\$267,818, US\$354,764 and US\$96,935 of service revenues were derived from educational services and test preparation courses, private label products and livestreaming e-commerce and other services, overseas study consulting services and other segments, respectively. For the year ended May 31, 2022, US\$2,535,318, US\$134,175, US\$325,901 and US\$54,628 of service revenues were derived from educational services and test preparation courses, private label products and livestreaming e-commerce and other services, overseas study consulting services and other segments, respectively. For the year ended May 31, 2021, US\$3,667,270, US\$210,591, US\$278,594 and US\$74,183 of service revenues were derived from educational services and test preparation courses, private label products and livestreaming e-commerce and other services, overseas study consulting services and other segments, respectively.

(b) Net product revenues

The Group recognizes revenues from the sales of private label products and sales of 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.

For the year ended May 31, 2023, US\$379,343 and US\$73,688 of product revenues were derived from private label products and livestreaming e-commerce and other services, and other segments, respectively. For the year ended May 31, 2022, US\$2,530 and US\$52,694 of product revenues were derived from private label products and livestreaming e-commerce and other services, and other segments, respectively. For the year ended May 31, 2021, all product revenues were derived from other segments.

The Group's contract assets consist of accounts receivable. The balance of contract assets amounted to US\$16,430 and US\$33,074 as of May 31, 2022 and 2023, respectively. The Group's contract liabilities mainly consist of prepayments from customers (deferred revenue), with a balance of US\$933,062 and US\$1,337,630 as of May 31, 2022 and 2023, respectively. Substantially all contract liabilities at the beginning of the year ended May 31, 2022 were recognized as revenues during the year ended May 31, 2023 and substantially all contract liabilities as of May 31, 2023 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, 2022 and 2023, refund liability amounted to US\$95,398 and US\$138,549, respectively, and are included in accrued expenses and other current liabilities.

Operating leases

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 right-of-use assets and operating lease liabilities, initially measured at the present value of the lease payments. The Group has elected the package of practical expedients, which allows the Group not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. The Group accounts for the lease and non-lease components separately. Lastly, the Company also has elected to utilize the short-term lease recognition exemption and, for those leases that qualified, the Group did not recognize operating lease right-of-use 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 using 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 are incurred. Total advertising expenses were US\$77,704, US\$43,520 and US\$49,365 for the years ended May 31, 2021, 2022 and 2023, respectively, and have been included as part of selling and marketing expenses.

Government subsidies

The government subsidies provided by the local government mainly included funding to support the growth of the Group. 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\$109,294, US\$9,170 and US\$16,010 for the years ended May 31, 2021, 2022 and 2023, respectively.

Foreign currency translation

The Company's functional and reporting currency is the United States dollars ("US 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 US dollars, which is the functional currency of these entities. The financial records of the Company's subsidiaries located overseas are maintained in their local currencies.

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/ (loss).

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\$956,476 and US\$2,012,511 as of May 31, 2022 and 2023, 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 and unsecured senior notes. The Group carries its available-for-sale investments, equity securities with readily determinable fair values, wealth management products and trading securities at fair value and carries its equity securities without readily determinable fair values at cost, less impairment, plus or minus observable price changes in a similar transaction. The carrying amounts of other financial instruments except for unsecured senior notes approximate their fair values due to the short-term maturities of these instruments. The estimated fair value of the Group's unsecured senior notes as of May 31, 2023 approximated US\$14,653, and represented a level 2 measurement.

Net income/ (loss) per share

Basic net income or loss per share is computed by dividing net income or loss attributable to the holders of common shares by the weighted average number of common shares outstanding during the year. Diluted net income or loss 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 or loss 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 or loss per share, the effect of the share options and NES is computed using the treasury stock method.

Income taxes

The Group accounts for income taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax basis of assets and liabilities, net of operating loss carry 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/ (loss)

Comprehensive income/ (loss) includes net income/ (loss), unrealized gain/ (loss) on available-for-sale investments and foreign currency translation adjustment. Comprehensive income/ (loss) is reported in the consolidated statements of comprehensive income/ (loss).

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 as they occur using graded vesting method 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 common shares of East Buy before its Initial Public Offering (“IPO”) by using the discounted cash flow method, to measure the fair value of options and NES granted to employees at each measurement date. The binomial option pricing model is adopted because the Group believes that considering the possibility of exercise an option over the life of the option, as affected by the reality of changing stock prices and non-constant risk free rates, would better reflect the measurement objective of relevant accounting literature.

The amount of compensation expenses recognized at any date is at least equal to the portion of the fair value of the awards that are vested as of that date. Forfeitures are recognized as they occur. Compensation expenses related to modified stock options are measured based on the fair value for the awards as of the modification date. The incremental share-based compensations for the vested portion is recognized immediately and the incremental portion of share-based for the unvested portion is recognized over the remaining vesting period of the awards.

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, 2022 and 2023, 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 2022 and 2023, respectively.

Recent accounting pronouncements adopted

In November 2021, the FASB issued ASU 2021-10, Government Assistance (Topic 832): Disclosure by Business Entities about Government Assistance (ASU 2021-10), which improves the transparency of government assistance received by most business entities by requiring the disclosure of: (1) the types of government assistance received; (2) the accounting for such assistance; and (3) the effect of the assistance on a business entity’s financial statements. The new guidance is effective for annual periods beginning after December 15, 2021, with early adoption permitted. The Company adopted this new standard beginning June 1, 2022 with no material impact on its consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which the amendments in this Update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. The amendments in this Update address how to determine whether a contract liability is recognized by the acquirer in a business combination. The ASU is effective for the fiscal year beginning after December 15, 2022, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period, for periods for which financial statements have not yet been issued. The Group is currently evaluating the impact of this update on its consolidated financial statements.

3. BUSINESS ACQUISITIONS

Business acquisition in the fiscal year 2021:

In the year ended May 31, 2021, the Group made several business acquisitions, which were both individually and in aggregate insignificant. The total cash consideration of these business acquisitions amounted to US\$15,201, in which US\$13,131, nil and US\$2,029 had been paid for the years ended May 31, 2021, 2022 and 2023, respectively. The cash and cash equivalents, intangible assets and goodwill acquired from these business acquisitions were US\$430, US\$2,085 and US\$13,420, respectively. The purchase price allocations were determined by the Group with assistance of an independent appraiser.

Pro forma financial information is not presented for the business acquisition in the fiscal year 2021 as it is immaterial to the reported results.

No business acquisition occurred in the fiscal year 2022.

Business acquisition in the fiscal year 2023:

Tibet Tianli Education Technology Co., Ltd. (“Tibet Tianli”)

Prior to September 2022, the Group held 17.4% equity interests in Tibet Tianli which was accounted for as equity securities without readily determinable fair value as Tibet Tianli is as private company. In September 2022, the Group subscribed 12.4% equity interests with a consideration of US\$13,031, meanwhile acquired another 30.0% equity interests in Tibet Tianli from other four shareholders (“Sellers”) with a total consideration of US\$19,547, in which US\$9,773 had been paid during the year ended May 31, 2023.

The acquisition of 42.4% equity interest resulted in a step acquisition whereby the Group remeasured the fair value of its previously held equity interest in Tibet Tianli. The fair value of the equity interest previously 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.

According to the acquisition agreement of Tibet Tianli, under profit commitment arrangement for the time period September 2022 to August 2025, the Sellers are to return part of the consideration or transfer additional Tibet Tianli’s shares or the Company is to deliver cash to the founders of Tibet Tianli, if certain contingency is met. The Company records the contingent considerations at fair value on the acquisition date. The fair value is remeasured at each reporting date and changes in fair value are recorded in the consolidated statements of operations.

After this transaction, the Group holds 59.8% equity interests of Tibet Tianli. 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 and cash equivalents	4,568	
Other current assets	33,906	
Property and equipment	218	1-5 years
Intangible assets		
Trademark	8,108	5 years
Copyright	2,317	5 years
Distribution channel	17,230	5 years
Goodwill	26,216	
Other non-current assets	317	
Other current liabilities	(13,411)	
Deferred tax liabilities	(2,489)	
Fair value of the 17.4% equity interests previously held	(13,395)	
Non-controlling interests	(31,007)	
Total	<u>32,578</u>	

Other acquisition

During the year ended May 31, 2023, the Group also made other business acquisition.

The cash consideration of the other business acquisition amounted to US\$9,556, which had been fully paid during the year ended May 31, 2023. The cash and cash equivalents, intangible assets, goodwill and non-controlling interests acquired from this business acquisition amounted to US\$497, US\$1,129, US\$12,776 and US\$1,652, respectively. The purchase price allocation were determined by the Group with the assistance of an independent appraiser.

Pro forma financial information is not presented for the business acquisition in the fiscal year 2023 as it is immaterial to the reported results.

4. SHORT-TERM INVESTMENTS

Short-term investments consisted of the following:

	As of May 31,	
	2022	2023
	US\$	US\$
Wealth management products measured at fair value	1,831,652	1,404,830
Trading securities	70,602	73,013
	<u>1,902,254</u>	<u>1,477,843</u>

Short-term investments mainly consist of wealth management products with variable interest rates where principal is unsecured and maturities range from one month to less than one year and trading securities. Starting from June 1, 2022, the Group elects the fair value option to record wealth management products in accordance with ASC 825 Financial Instruments. Changes in the fair value are reflected in the consolidated statements of operations.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net, consisted of the following:

	As of May 31,	
	2022	2023
	US\$	US\$
Receivable from third party payment platform	40,620	64,962
Advances to suppliers	60,018	63,473
VAT recoverable	12,174	21,887
Rental deposits	17,921	18,399
Prepaid advertising fees	5,155	10,336
Interest receivables	33,459	8,154
Prepaid rents (a)	14,785	8,004
Staff advances (b)	17,564	5,042
Deposits of advertising and decoration	1,719	555
Others (c)	12,443	11,119
	<u>215,858</u>	<u>211,931</u>
Less: allowance for prepaid expenses and other current assets	(456)	(691)
	<u>215,402</u>	<u>211,240</u>

- (a) Prepaid rents represent the prepayment of rent related to less than 12 months leases.
- (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,	
	2022	2023
	US\$	US\$
Buildings	166,238	156,017
Transportation equipment	6,127	6,366
Furniture and education equipment	144,342	118,936
Computer equipment and software	111,471	129,119
Leasehold improvements	341,019	293,236
Construction in progress	37,607	48,216
	<u>806,804</u>	<u>751,890</u>
Less: accumulated depreciation	(379,445)	(401,687)
Less: accumulated impairment loss	(9,385)	(14)
Exchange differences	(15,284)	9,571
	<u>402,690</u>	<u>359,760</u>

Depreciation expenses for the years ended May 31, 2021, 2022 and 2023 were US\$225,657, US\$192,291 and US\$117,036, respectively. For the year ended May 31, 2022, US\$368,602 impairment loss was recorded for certain property and equipment. Additionally, leasehold improvements of certain learning centers and offices accumulated impairment amounting to US\$388,758 was written off along with the underlying property and equipment and leasehold improvements which were disposed or fully impaired during fiscal year 2022. The above was resulted from the downsizing of learning centers as result of regulatory changes and the cessation of K-9 Academic AST Services in the mainland of China.

7. LAND USE RIGHTS, NET

Land use rights, net, consisted of the following:

	As of May 31,	
	2022	2023
	US\$	US\$
Land use rights	4,083	3,831
Less: accumulated amortization	(474)	(558)
Exchange differences	18	48
Land use rights, net	<u>3,627</u>	<u>3,321</u>

Amortization expenses for land use rights for the years ended May 31, 2021, 2022 and 2023 were US\$262, US\$205 and US\$84, respectively. The Group expects to recognize US\$84 in amortization expense for each of the next five years and US\$2,901 thereafter.

8. INTANGIBLE ASSETS, NET

Intangible assets, net, consisted of the following:

	As of May 31,	
	2022	2023
	US\$	US\$
Intangible assets with indefinite lives:		
Trademark	245	230
Intangible assets with finite lives:		
Trademark	8,760	16,221
Courseware	124	1,214
Student base	12,824	12,059
Favorable lease	703	660
License	415	415
Copyright	—	2,250
Distribution channel	—	16,737
	<u>23,071</u>	<u>49,786</u>
Less: accumulated amortization	(19,972)	(25,555)
Exchange differences	(299)	948
	<u>2,800</u>	<u>25,179</u>

Amortization expenses for the intangible assets for the years ended May 31, 2021, 2022 and 2023, were US\$4,524, US\$1,933 and US\$5,583, respectively. As of May 31, 2023, the Group expects to recognize amortization expenses of US\$6,348, US\$5,972, US\$5,941, US\$5,856, and US\$785, for the next five years, respectively, and US\$47 thereafter.

The Group recorded an impairment of US\$2,936, nil and nil for the years ended May 31, 2021, 2022 and 2023, respectively.

9. GOODWILL, NET

Goodwill, net, consisted of the following:

	As of May 31,	
	2022	2023
	US\$	US\$
Beginning balance	109,039	106,588
Acquisition	—	38,992
Exchange differences	(2,451)	(4,281)
Ending balance	106,588	141,299
Accumulated impairment	(35,785)	(35,785)
Goodwill, net	<u>70,803</u>	<u>105,514</u>

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. In its goodwill impairment assessment, the Group concluded that the carrying amounts of certain reporting units exceeded their implied fair values and recorded the impairment losses of US\$28,858, nil and nil for the years ended May 31, 2021, 2022 and 2023, respectively. The Group determined the fair value of the reporting units by using the income approach with significant unobservable inputs.

10. LONG-TERM INVESTMENTS, NET

Long-term investments, net, consisted of the following:

	As of May 31,	
	2022	2023
	US\$	US\$
Equity securities with readily determinable fair value:		
Sunlands Online Education Group (“Sunlands”) (a)	5,472	3,588
Other investments	2,089	2,703
Subtotal	7,561	6,291
Equity securities without readily determinable fair value:		
Tibet Tianli (b)	16,217	—
G-Net Cloud Service Co., Ltd. (“G-Net”) (c)	14,989	14,065
EEO Education Technology Co., Ltd. (“EEO”) (d)	9,312	9,312
Other investments (e)	12,787	14,758
Subtotal	53,305	38,135
Equity method investments:		
New Oriental Education and Culture Industry Fund (Zhangjiagang) Partnership (Limited Partnership) (“Education Industry Fund”) (f)	74,530	76,369
VM EDU Fund I, L.P.(g)	67,324	66,331
Other investments (h)	62,196	52,871
Subtotal	204,050	195,571
Available-for-sale investments:		
Shanghai Golden Education & Training Co., Ltd. (“Golden Finance”) (i)	82,972	76,115
Happy_seed (Cayman) Ltd. (“Happy Seed”) (j)	20,515	20,183
Tianjin Uhozz Internet Technology Co., Ltd. (“Uhozz”) (k)	17,510	17,890
Other available-for-sale investments (l)	52,006	45,400
Subtotal	173,003	159,588
	437,919	399,585

- (a) As of May 31, 2023, the Group held 8% equity interests in Sunlands. For the years ended May 31, 2021, 2022 and 2023, the stock price of Sunlands declined, and losses of US\$5,501, US\$10,467 and US\$1,883 were recorded in loss from fair value change of investments on the Group’s consolidated statements of operations, respectively.
- (b) In December 2018, the Group invested 5% equity interests in Tibet Tianli, a company engaged in developing educational products. In April 2020 and December 2020, the Group further subscribed 5% and 11% equity interests, respectively. In September 2022, the Group subscribed 12.4% equity interests with a consideration of US\$13,031, meanwhile acquired another 30.0% equity interests in Tibet Tianli from other four shareholders with a total consideration of US\$19,547. Prior to NOE’s acquisition in Tibet Tianli as disclosed in Note 3, as an equity security investment without readily determinable fair value, the Group measured the equity security investment at cost, less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Group recorded nil, US\$10,137 and nil impairment loss for the years ended May 31, 2021, 2022 and 2023, respectively.

- (c) In August 2020, the Group acquired 3% equity interests in G-Net, a company engaged in the business of audio and web conferencing services. The Group accounted for the investment as equity securities without readily determinable fair value as G-Net is a private company without readily determinable fair value. For the years ended May 31, 2021, 2022 and 2023, no impairment loss was recorded from this investment.
- (d) In April 2017, the Group acquired 10% equity interests in EEO, a company engaged in the business of developing on-line classroom product. The Group accounted for the investment as equity securities without readily determinable fair value as EEO is a private company without readily determinable fair value. For the years ended May 31, 2021, 2022 and 2023, no impairment loss was recorded from this investment.
- (e) The Group holds several insignificant investments in third-party private companies and has no ability to exercise significant influence over the investees. Those investments were accounted for using the measurement alternative when there is no readily determinable fair value for the investments. The Group recorded US\$12,532, US\$24,354 and nil impairment loss on these investments for the years ended May 31, 2021, 2022 and 2023, respectively.
- (f) 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\$76,369 in Education Industry Fund as of May 31, 2023. The Group accounts for the investment under the equity method in accordance with ASC 323, Equity Method of Accounting (“ASC 323”) because the Group is a limited partner and owns 36.3% interest in Education Industry Fund.
- (g) In June 2019, VM EDU Fund I, LP., a market-driven investment entity, was established with a total committed capital of US\$100,000. The Group participates in VM EDU Fund I, LP. as a limited partner and invested US\$66,331 in VM EDU Fund I, LP. as of May 31, 2023. The Group accounts for the investment under the equity method in accordance with ASC 323 because the Group is a limited partner and owns 49.69% interest in VM EDU Fund I, LP.
- (h) The Group holds from 6.9% to 50.0% equity interests in other 12 third-party companies through investments in their common shares or in-substance common shares as of May 31, 2023. 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. For the years ended May 31, 2021, 2022 and 2023, the Group recorded impairment loss of nil, US\$48,417 and US\$3,892, respectively.
- (i) In April 2015, the Group invested 9.8% equity interests in Golden Finance, a company engaged in training program business associated with finance and business management. In November 2015, the Group further subscribed 9.8% equity interests. In May 2019, the Group disposed of 7.2% equity interests for a total consideration of US\$33,156. 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.
- (j) In August 2019, the Group invested 6.4% equity interests in Happy Seed, a company engaged in cultivating logical thinking skill. In September 2020, the Group further subscribed additional 1.6% equity interests. The Group accounts for the investment as available-for-sale investments since the investee’s preferred shares held are redeemable and determined to be debt securities and measured at fair value.
- (k) In May 2015, the Group invested in Uhozz, a company providing oversea rental agency services, for a 10% equity interests with redemption and liquidation preferences. In March 2018, the Group further subscribed to 15.2% series B preferred shares. The Group accounted for the investment as available-for-sale investments since the investee’s preferred shares held are redeemable and determined to be debt securities and measured them at fair value.

- (l) Other available-for-sale investments represent several insignificant individual investments classified as available-for-sale investments as of May 31, 2021, 2022 and 2023. Realized gains of US\$3,535, US\$18,068 and nil were recorded in realized gain from long-term investments for the years ended May 31, 2021, 2022 and 2023, respectively. The Group recorded US\$27,675, US\$46,442 and US\$2,901 impairment loss on these investments for the years ended May 31, 2021, 2022 and 2023, respectively.

The Group recognized impairment losses from long-term investments amounting to US\$40,207, US\$129,350 and US\$8,056 for the years ended May 31, 2021, 2022 and 2023, respectively, as the Group believes the carrying value of these investments were no longer recoverable.

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, wealth management products and trading securities at fair value on a recurring basis. The available-for-sale investments recorded in long-term investments include redeemable preferred shares. The equity securities with readily determinable fair value include common shares of listed companies.

As of May 31, 2022 and 2023, 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, 2022			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\$	
Short-term investments:				
Trading securities (a)	70,602	—	—	70,602
Long-term investments:				
Equity securities with readily determinable fair values (b)	7,561	—	—	7,561
Available-for-sale investments (c)	—	10,029	162,974	173,003
Total	<u>78,163</u>	<u>10,029</u>	<u>162,974</u>	<u>251,166</u>

Description	As of May 31, 2023			
	Quoted Prices in Active Market for Identical Assets Level 1 US\$	Significant Other Observable Inputs Level 2 US\$	Significant Unobservable Inputs Level 3 US\$	Total US\$
Short-term investments:				
Wealth management products measured at fair value (a)	—	1,404,830	—	1,404,830
Trading securities (a)	73,013	—	—	73,013
Long-term investments:				
Equity securities with readily determinable fair values (b)	6,291	—	—	6,291
Available-for-sale investments (c)	—	17,890	141,698	159,588
Total	79,304	1,422,720	141,698	1,643,722

- (a) The short-term investments of wealth management products use alternative pricing sources, accordingly classified Level 2 measurement. The short-term investments of trading securities are valued at their daily closing price as reported by the financial institutions and are classified Level 1 measurement.
- (b) 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.
- (c) As of May 31, 2023, the fair value of available-for-sale investments amounted to US\$159,588, with original cost of US\$80,000 and unrealized gain of US\$79,588. As of May 31, 2022, the fair value of available-for-sale investments amounted to US\$173,003, with original cost of US\$86,024 and unrealized gain of US\$86,979.

The Company measured the fair value of its investment in convertible note and Assets Management Plan based on the respective principal and expected returns issued by financial institutions and has classified those as Level 2 measurement.

For redeemable preferred shares that do not have a quoted market rate, when recent transactions are available, the Company measured their fair value based on recent transactions. 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, the Company has classified those as Level 3 measurement and 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 assumptions are inherently uncertain and subjective. Changes in any unobservable inputs may have a significant impact on fair values. As of May 31, 2023, the fair values of available-for-sale investments classified as Level 3 were measured using the market or income approaches with significant unobservable inputs were based on the following assumptions: (1) expected volatility ranging from 53.9% to 96.8%, (2) discount rates ranging from 13.0% to 21.0%, and (3) expected life ranging from 1.6 to 5.6 years.

The Group did not have any transfers neither between Level 1 and Level 2 nor between Level 1 and Level 3 fair value measurements during the periods presented. The following table provides additional information about the reconciliation of the fair value measurements of assets using significant unobservable inputs (Level 3).

	Level 3 investments
	US\$
Balance as of June 1, 2021	65,232
Transfer from Level 2	133,030
Transfer to Level 2	(15,705)
Unrealized gain	2,015
Impairment	(15,632)
Foreign exchange difference	(5,966)
Balance as of May 31, 2022	162,974
Transfer from Level 2	10,028
Transfer to Level 2	(17,510)
Unrealized loss	(3,172)
Impairment	(2,901)
Foreign exchange difference	(7,721)
Balance as of May 31, 2023	<u>141,698</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, 2021, 2022 and 2023. The Group measures acquired intangible assets using the income approach, when events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable.

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,	
	2022	2023
	US\$	US\$
Accrued payroll	229,041	277,020
Refund liability (a)	95,398	138,549
Payable for purchase of property and equipment	27,240	27,093
Advance payment from students (b)	22,481	19,323
Amounts reimbursable to employees (c)	14,425	15,437
Accrued advertising fees	10,632	14,426
VAT payable	8,907	12,300
Payable for investments and acquisitions	1,097	9,531
Welfare payable	8,156	9,294
Royalty fees payable (d)	10,166	7,568
Rent payable	33,829	6,124
Refundable deposits (e)	8,418	5,825
Other taxes payable	4,897	5,095
Accrued professional service fees	6,015	2,824
Others (f)	29,562	19,028
Total	<u>510,264</u>	<u>569,437</u>

- (a) The refund liability is recognized for variable amount of the considerations received from the customers and recorded as refund liability as described in Note 2.
- (b) Advance payment from students represent (1) the miscellaneous expenses other than tuition fee prepaid by students which will be paid out on their behalf; and (2) advance payment prepaid by students for class enrollment.
- (c) Amounts reimbursable to employees include travelling and business related expenses.
- (d) Royalty fees payable relate to payments to content providers for on-line learning programs and those to counterparties for copyrights and resource sharing.
- (e) 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.
- (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 costs for the years ended May 31, 2021, 2022 and 2023 were US\$518,798, US\$368,058 and US\$163,195, respectively, which excluded cost of short-term leases. Short-term lease costs for the years ended May 31, 2021, 2022 and 2023 were US\$14,149, US\$2,344 and US\$39,057, respectively.

As of May 31, 2022 and 2023, the weighted average remaining lease term was 3.9 years and 3.6 years, respectively, and the weighted average discount rate was 4.5% and 4.4% for the Group's operating leases, respectively.

Supplemental cash flow information related to the operating leases is as follows:

	For the years ended May 31,	
	2022	2023
	US\$	US\$
Cash payments for the operating leases	355,284	180,157
Right-of-use assets obtained in exchange for the new operating lease liabilities	157,455	231,887

A summary of maturity analysis of the annual undiscounted cash flows for the operating lease liabilities as of May 31, 2023 is as follows:

	As of May 31, 2023 US\$
Fiscal year ending	
May 31, 2024	181,970
May 31, 2025	123,599
May 31, 2026	83,218
May 31, 2027	44,463
May 31, 2028	26,182
Thereafter	21,409
Total future lease payments	480,841
Less: Imputed interest	(36,899)
Present value of operating lease liabilities	443,942

As of May 31, 2023, the Group has lease contracts that have been entered into but not yet commenced amounting to US\$33,523, and these contracts will commence in the fiscal year 2024.

For the years ended May 31, 2021, 2022 and 2023, US\$4,228, US\$19,580 and nil impairment loss was recorded in general and administrative expenses mainly related to right-of-use assets of selected learning centers.

14. UNSECURED SENIOR NOTES

In July 2020, the Company issued unsecured senior notes for a principal amount of US\$300,000 which are listed in the Stock Exchange of Hong Kong Limited. The notes bear fixed interest rate at 2.125% with interest payable semiannually in arrears on January 2 and July 2 of each calendar year, commencing on January 2, 2021.

For the year ended May 31, 2022, the Company repurchased unsecured senior notes with a total principal amount of US\$234,385 at a repurchase price of US\$221,997. The repurchased unsecured senior notes were derecognized from the Group's consolidated balance sheets, and the relevant repurchase gains amounting to US\$12,579 were recognized in the Group's consolidated statements of operations for the year ended May 31, 2022.

For the year ended May 31, 2023, the Company repurchased unsecured senior notes with a total principal amount of US\$50,962 at a repurchase price of US\$48,764. The repurchased unsecured senior notes were derecognized from the Group's consolidated balance sheets, and the relevant repurchase gains amounting to US\$2,347 were recognized in the Group's consolidated statements of operations for the year ended May 31, 2023.

A summary of the unsecured senior notes as of May 31, 2023 is as follows:

	As of May 31,		Effective interest rate
	2022 US\$	2023 US\$	
Carrying amount of the unsecured senior notes due 2025	65,394	14,653	2.35%
Unamortized debt discounts, accrued interest expenses and debt issuance costs	221	—	
Total principal amount of the unsecured senior notes	65,615	14,653	

The unsecured senior notes were issued at a discount amount of US\$299,181. Debt issuance costs of US\$2,098 were directly deducted from the principal amount of the unsecured senior notes. The effective interest rates for the unsecured senior notes include the interest charged on the notes as well as amortization of the debt discounts and debt issuance costs.

The unsecured senior notes contain covenants including, among others, negative pledge, consolidation, merger and sale all or substantially all of the Company's assets. The notes will rank senior in rights of payment to all of the Company's existing and future obligations expressly subordinated in rights of payment to the notes and rank at least equal in rights of payment with all of the Company's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law).

15. COMMON SHARES AND TREASURY STOCK

On March 8, 2021, the Board of Directors adopted an ordinary resolution effective as of March 10, 2021 whereas each common share (whether issued or unissued) of par value of US\$0.01 each in the share capital of the Company was divided into ten common shares. The Company has retroactively restated all shares and per share data for all the periods presented pursuant to ASC 260, Earnings per Share.

As of May 31, 2022 and 2023, the Company had 3,000,000,000 common shares authorized with par value of US\$0.001.

The movements of the outstanding common shares and treasury stock are as follows, taking into the consideration of 1 to 10 stock split on March 10, 2021.

	Number of common shares	Number of treasury stock
Shares outstanding as of May 31, 2021	1,690,082,150	—
Issuance of common share for NES	6,884,033	—
Shares outstanding as of May 31, 2022	1,696,966,183	—
Issuance of common share for NES	5,659,610	—
Shares repurchase (a)	(59,463,140)	59,463,140
Shares outstanding as of May 31, 2023	1,643,162,653	59,463,140

- (a) On July 26, 2022, the Company's board of directors authorized the repurchase of up to US\$400 million of the Company's common shares during the period from July 28, 2022 through May 31, 2023. During the year ended May 31, 2023, the Company repurchased 5,946,314 ADS on the open market for total consideration of US\$191,628. The Group accounts for repurchased common shares under the par value method and includes such treasury stock as a component of the shareholders' equity.

16. 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 100,000,000 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 of directors and continue in effect for a term of ten years unless terminated sooner. Since the adoption of the 2016 Share Incentive Plan, the Company has granted a total of 71,681,298 NES, among which 19,595,518, nil and 20,759,130 were granted for the years ended May 31, 2021, 2022 and 2023, respectively. 428,228, 1,536,112 and 1,324,092 shares were forfeited for the years ended May 31, 2021, 2022 and 2023, 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.

NES

For the year ended May 31, 2023, nil treasury stock had been issued to employees and directors upon the vesting of their NES. As of May 31, 2023, 68,111,823 common shares out of 182,560,000 common shares held by the depository bank had been issued to employees and directors upon the vesting of their NES, and 39,412,570 shares out of 121,446,630 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, 2023 are summarized as follows:

	Number of NES	Weighted-average grant date fair (US\$)
NES outstanding as of May 31, 2022	16,495,845	11.51
Granted	20,759,130	2.60
Vested	(5,659,610)	11.51
Forfeited	(1,324,092)	8.90
NES outstanding as of May 31, 2023	<u>30,271,273</u>	5.52
NES expect to vest as of May 31, 2023	<u>30,271,273</u>	

The total fair value of NES vested for the years ended May 31, 2021, 2022 and 2023 were US\$53,335, US\$50,821 and US\$65,142, respectively. The weighted average grant date fair value of NES granted for the years ended May 31, 2021, 2022 and 2023 were US\$11.51, nil and US\$2.60, respectively. As of May 31, 2023, the total unrecognized compensation expenses for NES of US\$50,431 are expected to be recognized over a weighted average period of 1.4 years.

The total compensation expenses of NES are recognized using graded vesting method over the respective vesting periods. The Group recorded the related compensation expenses of US\$29,353, US\$118,487 and US\$69,547 for the years ended May 31, 2021, 2022 and 2023, respectively.

East Buy Pre-IPO Share Option Scheme

On July 13, 2018, the board of directors of East Buy 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 of Hong Kong Limited (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 East Buy, East Buy granted a total of 47,836,985 options to 144 grantees, including the directors, senior management of East Buy, contractors and other employees of East Buy. The grant date weight average fair value of each option is US\$0.53 and the estimated fair value of the share options granted was US\$21,613 on March 7, 2019. The exercise period is 6 years from the listing date of East Buy and the exercise price is US\$1.13.

The movements of share options under the Pre-IPO Share Option Scheme are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Outstanding as of May 31, 2021	36,902,985	1.13
Forfeited	(837,500)	1.13
Exercised	(153,500)	1.13
Outstanding as of May 31, 2022	35,911,985	1.13
Exercised	(8,827,600)	1.13
Outstanding as of May 31, 2023	27,084,385	1.13
Options vested and expected to vest as of May 31, 2023	<u>27,084,385</u>	1.13

The Group used the discounted cash flow method to determine the fair value of underlying common shares of East Buy with the assistance of an independent valuation specialist. Based on the fair value of the underlying common shares of East Buy, 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.

East Buy recorded the related compensation expenses of US\$1,298 and nil for the years ended May 31, 2022 and 2023, respectively, in relation to the share options issued under the Pre-IPO Share Option Scheme.

East Buy Post-IPO Share Option Scheme

On January 30, 2019, the board of directors of East Buy approved an employee's share option plan (the "Post-IPO Share Option Scheme").

East Buy Post-IPO Share Option I

On January 29, 2020, pursuant to the list of grantees and respective numbers of options approved by the board of directors of East Buy, East Buy granted a total of 40,000,000 options to grantees, including the directors, senior management and other employees of East Buy (“East Buy Post-IPO Share Option I”). The grant date weight average fair value of per option is US\$1.56 and the estimated fair value of the share options granted was US\$62,135 on January 29, 2020. The exercise period is 10 years from the granting day and the exercise price is US\$3.26.

The movements of share options under the East Buy Post-IPO Share Option I are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Outstanding as of May 31, 2021	29,541,815	3.26
Forfeited	(10,088,192)	3.26
Cancelled	(7,971,290)	3.26
Cancelled and replaced by East Buy Post-IPO Share Option III (a)	(11,482,333)	0.67
Outstanding as of May 31, 2022 and 2023	—	—
Options vested and expected to vest as of May 31, 2023	—	—

(a) Those options were cancelled and replaced as disclosed below.

East Buy has used the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange of Hong Kong Limited on the grant date as the fair value of underlying common shares of East Buy. Based on the fair value of the underlying common shares of East Buy, East Buy 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.

East Buy Post-IPO Share Option II

On August 25, 2020, pursuant to the list of grantees and respective numbers of options approved by the board of directors of East Buy, East Buy granted a total of 25,000,000 options to grantees including employees of East Buy (“East Buy Post-IPO Share Option II”). The grant date weight average fair value of each option was US\$2.14 and the estimated fair value of the share options granted was US\$53,872. The exercise period is 10 years from the granting day and the exercise price is US\$4.39.

The movements of share options under the East Buy Post-IPO Share Option II are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Outstanding as of May 31, 2021	20,848,000	4.39
Forfeited	(6,445,000)	4.39
Cancelled	(6,311,000)	4.39
Cancelled and replaced by East Buy Post-IPO Share Option III (a)	(8,092,000)	0.67
Outstanding as of May 31, 2022 and 2023	—	—
Options vested and expected to vest as of May 31, 2023	—	—

(a) Those options were cancelled and replaced as disclosed below.

The assumptions used to estimate the fair value of the share options granted under East Buy Post-IPO Share Option II, are as follows:

	August 25, 2020
Weighted average share price	US\$ 4.52
Exercise price	US\$ 4.39
Expected volatility	49.5%
Expected life	10 years
Risk-free rate	0.44%
Expected dividend yield	0.00%

East Buy has used the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange of Hong Kong Limited on the grant date as the fair value of underlying common shares of East Buy. Based on the fair value of the underlying common shares of East Buy, East Buy 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.

On November 15, 2021, the Company's board of directors cancelled 14,282,290 Post-IPO Share options in Post-IPO Share Option I and II. Share-based compensation expenses of US\$8,146 which otherwise would have been recognized for the services received over the remainder of the vesting period after considering the employee resignation were recognized immediately in the consolidated statements of operations for the year ended May 31, 2022.

East Buy Post-IPO Share Option III

On November 15, 2021, the Company's board of directors granted a total of 24,986,000 options to employees of East Buy ("East Buy Post-IPO Share Option III"). The grant date weighted average fair value of each option was US\$0.32 and the estimated fair value of the share options granted was US\$7,995. The exercise period is 10 years from the date of grant day and the exercise price is US\$0.67.

On that same day, the Company's board of directors also approved the modification of options previously granted as "Post-IPO Share Options I and II." Specifically, the number of options previously granted was increased and the exercise price of such options was reduced to \$0.67 per common share. The related vesting schedule of such options was also extended to 10 years from November 15, 2021. The Company accounted for the above transaction as a share option modification and measured the fair value of such options at the time of the modification. The Company recognized the incremental cost related to the vested options as share-based compensation expenses in the consolidated statements of operations for the year ended May 31, 2022. The Company will recognize the unvested cost remaining from the original nonvested option as well as incremental cost at the time of the modification over the remaining portion of the vesting period of the modified option.

The movements of share options under the East Buy Post-IPO Share Option III are summarized as follows:

	Number of share options	Weighted average exercise price per option (US\$)
Granted on November 15, 2021	24,986,000	0.67
Forfeited	(2,447,497)	0.67
Granted to replace cancelled options	23,455,590	0.67
Outstanding as of May 31, 2022	45,994,093	0.67
Forfeited	(1,216,275)	0.67
Exercised	(4,315,008)	0.67
Outstanding as of May 31, 2023	40,462,810	0.67
Options vested and expected to vest as of May 31, 2023	40,462,810	0.67

	November 15, 2021
Weighted average share price	US\$ 0.67
Exercise price	US\$ 0.67
Expected volatility	61%
Expected life	10 years
Risk-free rate	1.63%
Expected dividend yield	0.00%

East Buy has used the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange of Hong Kong Limited on the grant date as the fair value of underlying common shares of East Buy. Based on the fair value of the underlying common shares of East Buy, East Buy 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.

East Buy recognized the total compensation expenses of US\$13,183 and US\$10,897 for the years ended May 31, 2022 and 2023, respectively, in relation to the Post-IPO Share Option Scheme.

East Buy 2023 Scheme

On February 20, 2023, the board of directors of East Buy approved a new post-IPO share scheme (“East Buy 2023 Scheme”).

On April 11, 2023, pursuant to the list of grantees and respective numbers of options approved by the board of directors of East Buy, East Buy granted a total of 30,459,000 share awards to grantees, including the directors, senior management and other employees of East Buy. Each grant has a total vesting period of 3 years from the date of grant, and between 20% to 50% of the total NES will vest annually within the vesting period upon certain performance conditions are met.

The movements of share awards under the East Buy 2023 Scheme for the year ended May 31, 2023 are summarized as follows:

	Number of shares	Weighted-average grant date fair value US\$
Granted on April 11, 2023	30,459,000	3.69
Vested	—	—
Forfeited	(145,000)	3.69
Outstanding as of May 31, 2023	30,314,000	3.69
Vested and expect to vest as of May 31, 2023	<u>30,314,000</u>	

East Buy recognized the total compensation expenses of US\$9,344 for the year ended May 31, 2023 in relation to the East Buy 2023 Scheme.

As of May 31, 2023, the total unrecognized compensation expenses for NES of US\$102,647 are expected to be recognized over a weighted average period of 1.9 years.

At the end of each reporting period, the Group revises its estimates of the number of share awards that are expected to vest based on all relevant non-market vesting conditions, with the impact of the revision to original estimates, if any, in profit or loss, along with a corresponding adjustment to equity.

17. INCOME TAXES

Cayman Islands & the British Virgin Islands (“BVI”)

The Company and East Buy are tax-exempted companies incorporated in the Cayman Islands. Under the current law of the Cayman Islands, the Company and East Buy are not subject to income, corporate or capital gains tax, and the Cayman Islands currently have no form of estate duty, inheritance tax or gift tax. In addition, payments of dividends and capital in respect of their shares are not subject to taxation and no withholding will be required in the Cayman Islands on the payment of any dividend or capital to any holder of their shares, nor will gains derived from the disposal of their shares be subject to the Cayman Islands income or corporation tax.

The Company’s subsidiary, Abundant State Limited, is incorporated in BVI and is not subject to income tax.

United States (“US”)

Walkite International Academy (U.S.A.) Co., Ltd. and Blingabc Limited are incorporated in the US and are subject to federal income tax and state income tax at 21% and 8.8%, respectively.

United Kingdom (“UK”)

Walkite International Academy Co., Ltd. and New Oriental Vision Overseas Consulting (U.K.) Ltd are incorporated in the UK and are subject to income tax rate at 19%.

Australia

New Oriental Vision Overseas Consulting Australia Pty Ltd. is incorporated in Australia and is subject to income tax rate at 30%.

Canada

Walkite International Academy (Canada) Co., Ltd and New Oriental Vision Overseas Consulting Canada Inc. are incorporated in Canada and are subject to income tax rate at 15% in federal and 11.5% in provincial.

Japan

New Oriental Vision Overseas (JPN) Co., Ltd were established in Japan and subject to the Japan profit tax rate at 23.2%.

Hong Kong

Smart Shine, Winner Park, Elite Concept, One World Limited, Garden House Limited, Koolearn Tech, Asia Pacific Montessori Education Co., Ltd. (“Asia Pacific”), New Oriental Wuyou Online (HK) Education & Technology Co., Limited (“Wuyou Online”) and Dongfang Youbo (HK) Education Limited (“Dongfang Youbo (HK)”) 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. No provision in Smart Shine, Winner Park, Elite Concept, One World Limited, Garden House Limited, Koolearn Tech, Asia Pacific, Wuyou Online and Dongfang Youbo (HK) 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, 2021, 2022 and 2023.

PRC

The Company’s PRC subsidiaries, the VIEs, the VIEs’ subsidiaries and schools are subject to 25% standard enterprise income tax (“EIT”) 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, 2021, 2022 and 2023 were as follows:

	For the years ended May 31,		
	2021	2022	2023
	US\$	US\$	US\$
Current:			
PRC	127,313	44,378	97,594
Deferred:			
PRC	(43,725)	91,934	(31,528)
Total provision for income taxes	83,588	136,312	66,066

Enterprises that qualify as a high and new technology enterprise (“HNTE”) are subject to a tax rate of 15%. Although Xuncheng’s HNTE certificate is expected to expire on October 21, 2023, Beijing Hewstone, Beijing Decision, Dexin Dongfang and Beijing Be-linked Online Education Company Limited’s HNTE certificates are expected to expire on December 2, 2023, these enterprises are not subject to a tax rate of 15% starting from January 1, 2023, if they choose not to renew their certificates. Currently, these enterprises are in process of renewing their qualification of HNTE. Once their renewals are completed, these enterprises will be eligible for 15% tax rate starting January 1, 2023 again. Beijing Jinghong Software Technology Company Ltd., Beijing Shenghe Technology Company Ltd., Beijing Pioneer, Beijing Smart Wood, Beijing SFK Education Consulting Co., Ltd., Beijing Bright Future Education&Technology Company Limited and Dongfang Huijiao (Beijing) Technology Co., Ltd. continued to qualify as HNTE and were subject to a tax rate of 15% for the year ended May 31, 2023.

Hainan Dongfang Zhixin Technology Company Limited, Zhuhai Zekai Software Technology Company Limited, Zhuhai Chongshengheli Network Technology Co., Ltd and Tibet Tianli enjoyed the EIT tax rate of 15% because of the preferential corporate income tax policies for local tax concessions.

Enterprises that qualify as the newly established software enterprise (“NESE”) are exempt from the 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 Zhiyuan Hangcheng Software Technology Company Limited and Beijing Chuangying Oriental Technology Co., Ltd are qualified as NESE and enjoy the EIT tax benefit from January 2019 to December 2023. After expiration, the tax rate will return to 25%.

Since its establishment through May 31, 2023, 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,	
	2022	2023
	US\$	US\$
Deferred tax assets		
Allowance for doubtful accounts	41,806	37,424
Accrued expenses	53,069	56,716
Net operating loss carry-forward	321,258	324,355
Tax impact from the long-term investments disposed to a related party	1,521	1,521
Total deferred tax assets	417,654	420,016
Less: valuation allowance	(397,616)	(364,083)
Total deferred tax assets, net	20,038	55,933
Deferred tax liabilities		
Acquired assets	1,788	4,523
Tax impact from the unrealized gain on available-for-sale investments	17,452	19,326
Total deferred tax liabilities	19,240	23,849

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\$90,087, US\$397,616 and US\$364,083 as of May 31, 2021, 2022 and 2023, respectively.

As of May 31, 2023, the Group had net operating loss carried-forwards of US\$127,708 from the Company's PRC subsidiaries, the VIEs, the VIEs' subsidiaries and schools which will expire during the period from 2023 to 2028 except for those arose from HNTes, which will expire during the period from 2023 to 2033.

A reconciliation of the provision for income taxes computed by applying the EIT rates of 25% for the years ended May 31, 2021, 2022 and 2023 to income/(loss) before provision for income tax and the actual provision for income tax is as follows:

	For the years ended May 31,		
	2021	2022	2023
	US\$	US\$	US\$
Income/(loss) before income taxes	314,977	(1,032,498)	308,531
PRC statutory income tax rate	25%	25%	25%
Income tax at statutory income tax rate	78,744	(258,125)	77,133
Effect of non-deductible expenses and loss and super deduction expenses	(5,174)	106,903	40,577
Effect of income tax exemptions and preferential tax rates	(38,795)	(19,570)	(12,927)
Effect of income tax rate difference in other jurisdictions	(181)	(424)	(5,184)
Changes in valuation allowance	48,994	307,528	(33,533)
Provision for income taxes	83,588	136,312	66,066

If the WFOE and certain subsidiaries and schools of the VIEs did not enjoy income tax exemptions and preferential tax rates, tax expense would have increased by US\$33,847, US\$5,453 and US\$25,420 for the years ended May 31, 2021, 2022 and 2023, respectively. The decrease in basic net income per common share would have been US\$0.20 for the year ended May 31, 2021, the increase in basic net loss per common share would have been US\$0.00 for the year ended May 31, 2022, and the decrease in basic net income per common share would have been US\$0.01 for the year ended May 31, 2023. The decrease in diluted net income per common share would have been US\$0.20 for the year ended May 31, 2021, the increase in diluted net loss per common share would have been US\$0.00 for the year ended May 31, 2022, and the decrease in diluted net income per common share would have been US\$0.02 for the year ended May 31, 2023.

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. In November 2018, Elite Concept started to enjoy a preferential tax rate of 5% under the tax treaty treatment.

Aggregate undistributed earnings of the Company’s PRC subsidiaries, the VIEs, the VIEs’ subsidiaries and schools that are available for distribution were US\$2,795,596, US\$1,880,057 and US\$2,078,517 as of May 31, 2021, 2022 and 2023, 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 PRC subsidiaries, the VIEs, the VIEs’ subsidiaries and schools 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, 2021, 2022 and 2023. The Group did not incur any significant interest and penalties related to potential underpaid income tax expenses and also does not anticipate any significant increases or decreases in unrecognized tax benefits in the next twelve months. The Group has no material unrecognized tax benefits which would favorably affect the effective income tax rate in future periods.

According to the PRC Tax Administration and Collection Law, the tax authority may require the taxpayer or the withholding agent to make delinquent tax payment within three years if the underpayment of taxes is resulted from the tax authority’s act or error. No late payment surcharge will be assessed under such circumstances. The statute of limitation will be three years if the underpayment of taxes is due to the computational errors made by the taxpayer or the withholding agent. Late payment surcharge will be assessed in such case. The statute of limitation will be extended to five years under special circumstances which are not clearly defined (but an underpayment of tax liability exceeding US\$16 (RMB100) 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.

18. NET INCOME/(LOSS) PER SHARE

The computation of basic and diluted net income/(loss) per common share for the years ended May 31, 2021, 2022 and 2023 is as follows:

	For the years ended May 31,		
	2021	2022	2023
Numerator:			
Net income/(loss) attributable to New Oriental Education & Technology Group Inc.'s shareholders - basic (US\$ in thousands)	334,414	(1,187,721)	177,341
Net income/(loss) attributable to New Oriental Education & Technology Group Inc.'s shareholders - diluted (US\$ in thousands)	334,414	(1,187,721)	173,732
Denominator*			
Weighted average common shares outstanding-basic	1,645,463,440	1,696,419,232	1,678,264,547
Plus: incremental weighted average common shares from assumed vesting of NES using the treasury stock method	6,518,944	—	7,367,440
Weighted average common shares outstanding-diluted	1,651,982,384	1,696,419,232	1,685,631,987
Net income/(loss) per common share*			
- Basic (US\$)	0.20	(0.70)	0.11
- Diluted (US\$)	0.20	(0.70)	0.10

* Retrospectively adjusted for effect of stock split

19. RELATED-PARTIES TRANSACTIONS

The Group had the following significant balances and transactions with major related parties:

(a) Amount due from/to related parties:

	Notes	Relationship	Amounts due from related parties, current		Amounts due to related parties, current	
			As of May 31,		As of May 31,	
			2022	2023	2022	2023
			US\$	US\$	US\$	US\$
Metropolis Holding China Limited (“Metropolis”)	(1)	Company controlled by Mr. Yu	998	2,435	27	236
Beijing Edutainment World Education Technology Co., Ltd (“Edutainment World”)	(2)	Equity method investee	2,016	4,086	—	18
Beijing Dianshi Jingwei Technology Co., Ltd (“Dianshi Jingwei”)	(3)	Equity method investee	20,181	—	—	—
Others			50	2,862	199	92
Total			23,245	9,383	226	346

	Notes	Relationship	Amounts due from related parties, non-current	
			As of May 31,	
			2022	2023
			US\$	US\$
Metropolis	(1)	Company controlled by Mr. Yu	2,770	1,398
Others			595	337
Total			3,365	1,735

(b) Transactions:

	Notes	Relationship	Rental expenses		
			For the years ended May 31,		
			2021	2022	2023
			US\$	US\$	US\$
Metropolis	(1)	Company controlled by Mr. Yu	11,653	11,590	8,387

	Notes	Relationship	Revenues		
			For the years ended May 31,		
			2021	2022	2023
			US\$	US\$	US\$
Edutainment World	(2)	Equity method investee	1,096	—	2,098
Others			18	41	—
Total			1,114	41	2,098

	Notes	Relationship	Loans provided to related parties		
			For the years ended May 31,		
			2021	2022	2023
			US\$	US\$	US\$
Dianshi Jingwei	(3)	Equity method investee	—	3,096	—
Beijing MaxEn International Education Consulting Company Limited (“Beijing MaxEn”)	(4)	Equity method investee	10,486	38,130	—
Others			—	—	2,387
Total			10,486	41,226	2,387

	Notes	Relationship	Cost		
			For the years ended May 31,		
			2021	2022	2023
			US\$	US\$	US\$
Dianshi Jingwei	(3)	Equity method investee	—	52,380	—
Beijing Dongfang Heli Investment and Development Ltd (“Dongfang Heli”)		Equity method investee	1,915	1,415	513
Edutainment World	(2)	Equity method investee	175	186	1,253
Others			—	714	—
Total			2,090	54,695	1,766

- (1) As of May 31, 2022 and 2023, the current amounts due from Metropolis, which is an entity acquired by a company wholly-owned by Mr. Yu, the chairman of the Company, were US\$998 and US\$2,435, respectively and the non-current amounts due from Metropolis were US\$2,770 and US\$1,398, respectively. Those represented prepaid rent related to a short-term lease and deposit for the building. As of May 31, 2022 and 2023, the right-of-use assets related to the leases rented from Metropolis were US\$7,891 and US\$15,920, respectively, and the relevant lease liabilities were US\$7,826 and US\$15,723, respectively.
- (2) Prior to April 2022, the Group's investment in Edutainment World's preferred shares were accounted for available-for-sale investment, while since April 2022, the investment was accounted for using equity method considering that the Group can exercise significant influence over Edutainment World. For the year ended May 31, 2021, 2022 and 2023, the Group provided services to Edutainment World, from which the unpaid balance was US\$2,016 and US\$4,086 as of May 31, 2022 and 2023, respectively.
- (3) In April 2016, the Group sold 51% of its equity interest in Dianshi Jingwei which became an equity method investee of the Group. In October 2021, the Group entered into a purchase agreement with Dianshi Jingwei for the purchase of learning devices of which \$52,380 was further recorded as cost. In November 2022, the Company transferred all its equity interest in Dianshi Jingwei to the founder of Dianshi Jingwei and ceased the business cooperation aforementioned.
- (4) For the year ended May 31, 2022, the Group provided the loans in aggregate of US\$38,130 to Beijing MaxEn, an equity method investee of the Group. As of May 31, 2022, the outstanding balance of the loans was US\$40,197, which was fully impaired.

20. COMMITMENTS AND CONTINGENCIES

Capital commitments

As of May 31, 2023, the future minimum capital commitments were as follows:

	US\$
Capital commitment for the purchase of property and equipment	801
Capital commitment for leasehold improvements	16,692
Total	<u>17,493</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 a material 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, the Group has not accrued any liabilities.

21. 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. For the year ended May 31, 2021, the Group previously identified seven operating segments, including (i) K-12 AST, test preparation, and other 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 tour. For the year ended May 31, 2022, as a result of the changes in the regulatory environment, the Group reduced its operating segments from seven to four. Those include (i) educational services and test preparation courses, which was formerly named as "K-12 AST, test preparation, and other courses," (ii) online education and other services, which was formerly named as "online education," (iii) overseas study consulting services, and (iv) educational materials and distribution, which was formerly named as "content development and distribution." Primary and secondary school education, pre-school education and study tour were no longer reviewed separately by the Group's CODM and thus, no longer considered as operating segments. Those were aggregated as others for the year ended May 31, 2022. For the year ended May 31, 2023, the Group renamed the segment of online education and other services to private label products and livestreaming e-commerce and other services. The Group identified educational services and test preparation courses, private label products and livestreaming e-commerce and other services, and overseas study consulting services as three reportable segments. Educational materials and distribution individually did not exceed the 10% quantitative threshold and as a result, was included in others below.

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 are as follows:

For the year ended May 31, 2021

	Educational services and test preparation courses US\$	Private label products and livestreaming e-commerce and other services US\$	Overseas study consulting services US\$	Others US\$	Consolidated US\$
Net revenues	3,667,270	210,591	278,594	120,084	4,276,539
Operating cost and expenses:					
Cost of revenues	(1,680,779)	(145,428)	(127,841)	(82,827)	(2,036,875)
Selling and marketing	(326,708)	(175,092)	(61,259)	(25,346)	(588,405)
General and administrative	(955,211)	(124,897)	(60,580)	(69,524)	(1,210,212)
Unallocated corporate expenses	—	—	—	—	(323,781)
Total operating cost and expenses	(2,962,698)	(445,417)	(249,680)	(177,697)	(4,159,273)
Operating income/(loss)	704,572	(234,826)	28,914	(57,613)	117,266
Segment assets	4,380,247	516,488	477,568	281,579	5,655,882
Unallocated corporate assets	—	—	—	—	4,495,171
Total assets	<u>4,380,247</u>	<u>516,488</u>	<u>477,568</u>	<u>281,579</u>	<u>10,151,053</u>

For the year ended May 31, 2022

	Educational services and test preparation courses	Private label products and livestreaming e-commerce and other services	Overseas study consulting services	Others	Consolidated
	US\$	US\$	US\$	US\$	US\$
Net revenues	2,535,318	136,705	325,901	107,322	3,105,246
Operating cost and expenses:					
Cost of revenues	(1,442,156)	(68,732)	(165,673)	(77,730)	(1,754,291)
Selling and marketing	(273,344)	(79,428)	(72,847)	(30,494)	(456,113)
General and administrative	(1,308,742)	(72,361)	(61,258)	(63,859)	(1,506,220)
Unallocated corporate expenses	—	—	—	—	(371,135)
Total operating cost and expenses	(3,024,242)	(220,521)	(299,778)	(172,083)	(4,087,759)
Operating (loss)/income	(488,924)	(83,816)	26,123	(64,761)	(982,513)
Segment assets	2,227,184	313,258	177,821	4,381	2,722,644
Unallocated corporate assets	—	—	—	—	3,312,022
Total assets	2,227,184	313,258	177,821	4,381	6,034,666

For the year ended May 31, 2023

	Educational services and test preparation courses	Private label products and livestreaming e-commerce and other services	Overseas study consulting services	Others	Consolidated
	US\$	US\$	US\$	US\$	US\$
Net revenues	1,825,212	647,161	354,764	170,623	2,997,760
Operating cost and expenses:					
Cost of revenues	(773,989)	(364,645)	(179,284)	(91,520)	(1,409,438)
Selling and marketing	(217,915)	(89,302)	(80,528)	(45,657)	(433,402)
General and administrative	(503,345)	(50,658)	(61,861)	(65,725)	(681,589)
Unallocated corporate expenses	—	—	—	—	(283,285)
Total operating cost and expenses	(1,495,249)	(504,605)	(321,673)	(202,902)	(2,807,714)
Operating income/(loss)	329,963	142,556	33,091	(32,279)	190,046
Segment assets	1,703,762	307,167	109,422	149,017	2,269,368
Unallocated corporate assets	—	—	—	—	4,123,090
Total assets	1,703,762	307,167	109,422	149,017	6,392,458

22. 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\$257,542, US\$272,433 and US\$196,042 for the years ended May 31, 2021, 2022 and 2023, respectively.

23. 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. For the years ended May 31, 2021, 2022 and 2023, US\$3,302, US\$2,828 and US\$3,620 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. In the case of a for-profit private school, this amount shall be no less than 10% of the audited annual net income of the school, while in the case of a non-profit private school, this amount shall be equal to no less than 10% of the audited annual increase in the unrestricted net assets of the school, if any. For the years ended May 31, 2021, 2022 and 2023, the Company made US\$64,124, reversed US\$2,512 and made US\$13,222 to the development fund, respectively.

These reserves are included as statutory reserves in the consolidated statements of changes in equity. The Group allocated US\$67,426, US\$316 and US\$16,842 to statutory reserves for the years ended May 31, 2021, 2022 and 2023, respectively.

24. 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\$724,854, US\$918,190 and US\$935,032 of which US\$681,309, US\$519,388 and US\$535,700 were attributed to the paid-in capital, additional paid-in capital and statutory reserves of the VIEs and US\$43,545, US\$398,802 and US\$399,332 were attributed to the paid-in capital, additional paid-in capital and statutory reserves of the WFOEs, as of May 31, 2021, 2022 and 2023, 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 the 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.

25. SUBSEQUENT EVENTS

Share repurchase program

On June 6, 2023, the Company announced that its board of directors has authorized the Company to extend its share repurchase program, over the next twelve months through May 31, 2024. As of September 15, 2023, an aggregate of 5,969,314 ADS was repurchased.

26. Reconciliation between US GAAP and International Financial Reporting Standards

The consolidated financial statements are prepared in accordance with US GAAP, which differ in certain respects from International Financial Reporting Standards (“IFRSs”). The effects of material differences between the consolidated financial statements of the Group prepared under US GAAP and IFRSs are as follows:

	For the year ended May 31, 2022				Amounts as reported under IFRSs
	Amounts as reported under US GAAP	IFRSs adjustments			
		Investments measured at fair value	Share-based compensation	Lease accounting	
US\$	Note i US\$	Note ii US\$	Note iii US\$	US\$	
Cost of revenues	(1,754,291)	—	(2,238)	42,599	(1,713,930)
Selling and marketing	(466,895)	—	1,273	4,610	(461,012)
General and administrative	(1,866,573)	—	(2,522)	7,548	(1,861,547)
Operating loss	(982,513)	—	(3,487)	54,757	(931,243)
Interest expense	(4,050)	—	—	(24,671)	(28,721)
Loss from fair value change of investments	(14,933)	(13,383)	—	—	(28,316)
Loss before income taxes and loss from equity method investments	(1,032,498)	(13,383)	(3,487)	30,086	(1,019,282)
Provision for income taxes	(136,312)	1,186	—	—	(135,126)
Net loss	(1,220,276)	(12,197)	(3,487)	30,086	(1,205,874)
Net loss attributable to New Oriental Education & Technology Group Inc.’s shareholders	(1,187,721)	(12,197)	(3,487)	30,086	(1,173,319)
Net loss	(1,220,276)	(12,197)	(3,487)	30,086	(1,205,874)
Other comprehensive loss, net of tax					
Foreign currency translation adjustment	(118,872)	(2)	—	—	(118,874)
Unrealized loss on available-for-sale investments, net of tax	(12,896)	12,896	—	—	—
Other comprehensive loss, net of tax	(131,768)	12,894	—	—	(118,874)
Comprehensive loss	(1,352,044)	697	(3,487)	30,086	(1,324,748)
Comprehensive loss attributable to non-controlling interests	(31,539)	—	—	—	(31,539)
Comprehensive loss attributable to New Oriental Education & Technology Group Inc.’s shareholders	(1,320,505)	697	(3,487)	30,086	(1,293,209)

For the year ended May 31, 2023
IFRSs adjustments

	Amounts as reported under US GAAP	Investments measured at fair value	Share-based compensation	Lease accounting	Amounts as reported under IFRSs
	US\$	Note i US\$	Note ii US\$	Note iii US\$	US\$
Cost of revenues	(1,409,438)	—	53	9,541	(1,399,844)
Selling and marketing	(444,693)	—	1,485	1,175	(442,033)
General and administrative	(953,583)	—	625	2,479	(950,479)
Operating income	190,046	—	2,163	13,195	205,404
Interest expense	(707)	—	—	(16,868)	(17,575)
Loss from fair value change of investments	(860)	(7,399)	—	—	(8,259)
Income before income taxes and loss from equity method investments	308,531	(7,399)	2,163	(3,673)	299,622
Provision for income taxes	(66,066)	1,086	—	—	(64,980)
Net income	235,363	(6,313)	2,163	(3,673)	227,540
Net loss attributable to New Oriental Education & Technology Group Inc.'s shareholders	177,341	(6,313)	2,163	(3,673)	169,518
Net income	235,363	(6,313)	2,163	(3,673)	227,540
Other comprehensive loss, net of tax					
Foreign currency translation adjustment	(155,517)	(25)	—	—	(155,542)
Unrealized loss on available-for-sale investments, net of tax	(2,279)	2,279	—	—	—
Other comprehensive loss, net of tax	(157,796)	2,254	—	—	(155,542)
Comprehensive income	77,567	(4,059)	2,163	(3,673)	71,998
Comprehensive income attributable to non-controlling interests	56,644	—	—	—	56,644
Comprehensive income attributable to New Oriental Education & Technology Group Inc.'s shareholders	20,923	(4,059)	2,163	(3,673)	15,354

	As of May 31, 2022				Amounts as reported under IFRSs
	Amounts as reported under US GAAP	Investments measured at fair value	Share-based compensation	Lease accounting	
	US\$	Note i US\$	Note ii US\$	Note iii US\$	
Long-term investments, net	437,919	(233,869)	—	—	204,050
Financial assets at fair value through profit or loss	—	242,420	—	—	242,420
Right-of-use assets	531,102	—	—	(12,395)	518,707
Total assets	6,034,666	8,551	—	(12,395)	6,030,822
Deferred tax liabilities	19,240	1,289	—	—	20,529
Total liabilities	2,241,142	1,289	—	—	2,242,431
Additional paid-in capital	2,061,613	—	1,733	—	2,063,346
Retained earnings	1,065,362	73,843	(1,733)	(12,395)	1,125,077
Accumulated other comprehensive income	129,014	(66,581)	—	—	62,433
Total New Oriental Education & Technology Group Inc. shareholders' equity	3,705,506	7,262	—	(12,395)	3,700,373
Total equity	3,793,524	7,262	—	(12,395)	3,788,391
Total liabilities and equity	6,034,666	8,551	—	(12,395)	6,030,822

	As of May 31, 2023				Amounts as reported under IFRSs
	Amounts as reported under US GAAP	Investments measured at fair value	Share-based compensation	Lease accounting	
	US\$	Note i US\$	Note ii US\$	Note iii US\$	
Long-term investments, net	399,585	(204,014)	—	—	195,571
Financial assets at fair value through profit or loss	—	207,927	—	—	207,927
Right-of-use assets	439,535	—	—	(16,068)	423,467
Total assets	6,392,458	3,913	—	(16,068)	6,380,303
Deferred tax liabilities	23,849	708	—	—	24,557
Total liabilities	2,577,670	708	—	—	2,578,378
Additional paid-in capital	1,939,585	—	(430)	—	1,939,155
Retained earnings	1,225,861	67,530	430	(16,068)	1,277,753
Accumulated other comprehensive loss	(27,404)	(64,325)	—	—	(91,729)
Total New Oriental Education & Technology Group Inc. shareholders' equity	3,604,348	3,205	—	(16,068)	3,591,485
Total equity	3,814,788	3,205	—	(16,068)	3,801,925
Total liabilities and equity	6,392,458	3,913	—	(16,068)	6,380,303

Notes

(i) Investments measured at fair value

Under US GAAP, the Group elects measurement alternative 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.

For investments in investee's shares which are determined to be debt securities, the Group accounts for them as available-for-sale investments when they are not classified as either trading or held-to-maturity investments. Available-for-sale investments are reported at fair value, with unrealized gains and losses, net of taxes recorded in accumulated other comprehensive income or loss. Realized gains or losses on the sales of these securities are recognized in the consolidated statements of operations.

Under IFRSs, the aforementioned investments are classified as financial assets at fair value through profit or loss and measured at fair value. Fair value changes of these long-term investments are recognized in profit or loss.

(ii) Share-based compensation

Under US GAAP, the Group recognized as compensation expenses net of forfeitures as they occur using graded vesting method over the requisite service period.

Under IFRSs, the compensation expenses are recognized net of estimated forfeitures using graded vesting method over the requisite service period.

(iii) Lease

Under US GAAP, the amortization of the right-of-use assets and interest expense related to the lease liabilities are recorded together as lease expense to produce a straight-line recognition effect in profit or loss.

Under IFRSs, the amortization of the right-of-use asset is on a straight-line basis while the interest expense related to the lease liabilities are measured at amortized cost.