New Oriental Education & Technology Group Inc.
Form F-1/A
January 29, 2007
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As filed with the Securities and Exchange Commission on January 29, 2007

Registration No. 333-140090

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM F-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

NEW ORIENTAL EDUCATION & TECHNOLOGY GROUP INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant s name into English)

Cayman Islands	**8200**	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Louis T. Hsieh

Chief Financial Officer

No. 6 Hai Dian Zhong Street, 9th Floor

Haidian District, Beijing 100080

People s Republic of China

(8610) 6260-5566

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

CT Corporation System

111 Eighth Avenue

New York, New York 10011

(212) 894-8940

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

David T. Zhang	**Alan D. Seem**
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	(8610) 5922-8000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered (1)(2)**	**Proposed maximum aggregate offering price (1)**	**Amount of registration fee**
Common shares, par value $0.01 per share(2)(3)	**32,200,000**	**$285,855,500**	**$30,673**

(1) Estimated solely for the purpose of determining the amount of registration fee in accordance with Rule 457(c) under the Securities Act of 1933, based on $35.51, which is based on the average of the high and low sales prices of the Registrant s American depositary shares, as reported by the New York Stock Exchange on January 26, 2007.

(2) Includes common shares represented by American depositary shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public, and also includes common shares represented by American depositary shares that may be purchased by the underwriters pursuant to an over-allotment option. These common shares are not being registered for the purpose of sales outside the United States.

(3) American depositary shares issuable upon deposit of the common shares registered hereby have been registered under a separate registration statement on Form F-6 (Registration No.333-136862). Each American depositary share represents four common shares.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to such Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated January 29, 2007.

7,000,000 American Depositary Shares

Representing

28,000,000 Common Shares

New Oriental Education & Technology Group Inc.

New Oriental Education & Technology Group Inc., or New Oriental, is offering 598,399 American depositary shares, or ADSs, and the selling shareholders identified in this prospectus are offering an additional 6,401,601 ADSs. Each ADS represents four common shares, par value $0.01 per share of New Oriental. The ADSs are evidenced by American depositary receipts, or ADRs. We will not receive any proceeds from the ADSs sold by the selling shareholders.

Our ADSs are listed on the New York Stock Exchange under the symbol EDU. On January 26, 2007, the last sale price for our ADSs as reported on the New York Stock Exchange was US$35.25 per ADS.

See Risk Factors beginning on page 11 to read about risks you should consider before buying the ADSs.

Neither the United States Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts and Commissions	Proceeds, Before Expenses, to New Oriental	Proceeds, Before Expenses, to the Selling Shareholders
Per ADS	US$	US$	US$	US$
Total	US$	US$	US$	US$

The underwriters have an option to purchase up to an additional 1,050,000 ADSs from certain selling shareholders at the public offering price less the underwriting discount.

The underwriters expect to deliver the ADSs evidenced by the ADRs against payment in U.S. dollars in New York, New York on , 2007.

Credit Suisse **Goldman Sachs (Asia) L.L.C.** **Merrill Lynch & Co.**

Piper Jaffray **CIBC World Markets**

Prospectus dated , 2007

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the ADSs offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information in this prospectus is current only as of the date of this prospectus.

In connection with this offering, the underwriters or any person acting on their behalf may over-allot or effect transactions with a view to supporting the market price of the ADSs at a level higher than that which might otherwise prevail for a limited period of time after the issue date. However, there is no obligation on the underwriters or their respective agents to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in our ADSs discussed under Risk Factors, before deciding whether to buy our ADSs.

Our Business

We are the largest provider of private educational services in China based on the number of program offerings, total student enrollments and geographic presence. We offer a wide range of educational programs, services and products consisting primarily of English and other foreign language training, test preparation courses for major admissions and assessment tests in the United States, the PRC and Commonwealth countries, primary and secondary school education, development and distribution of educational content, software and other technology, and online education. We provide educational services under our New Oriental brand, which we believe is the leading consumer brand in China s private education sector, as evidenced by awards we received from many national print and online media sources in China, including the Most Influential Education Brand in 2005 from Southern China Metropolitan Daily, a newspaper with nationwide circulation, and the 2006 Top Ten Largest Private Educational Organizations in China from over 40 major media outlets in China.

Since our inception in 1993, we have had over 3.5 million cumulative student enrollments. In the fiscal year ended May 31, 2006, we had over 872,000 student enrollments, including approximately 497,000 student enrollments in our language training programs and approximately 375,000 student enrollments in our test preparation courses. In the six months ended November 30, 2006, we had over 555,000 student enrollments, including approximately 328,000 student enrollments in our language training programs and approximately 227,000 student enrollments in our test preparation courses. We deliver our educational programs, services and products to students through an extensive physical network of 34 schools, 121 learning centers and 17 bookstores operated by us as of November 30, 2006, over 5,000 third-party bookstores and approximately 2,100 teachers in 32 cities, as well as through our virtual online network, which has approximately two million registered users.

We have experienced significant growth in our business in recent years. Our total net revenues increased from RMB441.8 million for the fiscal year ended May 31, 2004 to RMB770.3 million (US$98.3 million) for the fiscal year ended May 31, 2006, representing a compound annual growth rate, or CAGR, of 32.0%. We generated total net revenues of RMB598.4 million (US$76.4 million) in the six months ended November 30, 2006. Net revenues from our language training and test preparation courses accounted for 96.0%, 91.9%, 89.2% and 89.9%, respectively, of our total net revenues in the fiscal years ended May 31, 2004, 2005 and 2006 and the six months ended November 30, 2006. Our net income increased from RMB52.4 million in the fiscal year ended May 31, 2004 to RMB142.0 million in the fiscal year ended May 31, 2005, but decreased to RMB49.4 million (US$6.3 million) in the fiscal year ended May 31, 2006 primarily due to the RMB64.5 million (US$8.2 million) share-based compensation expenses we incurred in the year. We had net income of RMB173.3 million (US$22.1 million) in the six months ended November 30, 2006.

Market Opportunity

We primarily target students between the ages of five and 29 living in urban areas in China. According to China Statistical Yearbook (2006) published by the National Bureau of Statistics of China, in 2005, approximately 600 million people in China were between the ages of five and 29. In 2004, China had eight cities each with a population of over four million, 50 cities each with a population of over one million and 131 cities

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each with a population of over 500,000, according to China Demographics Yearbook (2005) published by the National Bureau of Statistics of China. In the fiscal year ended May 31, 2006 and in the six months ended November 30, 2006, we generated approximately two-thirds of our revenues from four cities in China: Beijing, Shanghai, Guangzhou and Wuhan, each of which has a population of over four million.

The size of the education market in China was approximately RMB580 billion (US$72 billion) in 2004, of which the size of the English language training market was approximately RMB15 billion (US$1.9 billion) and is expected to grow to approximately RMB30 billion (US$3.7 billion) in 2010, at a CAGR of 12.3%, according to China Education and Training Industry Research Report (2005-2006) published by Beijing Heading Century Consulting Co., Ltd., a third-party consulting and market research firm. The demand for English language training is primarily driven by China s accelerating integration into the global economy, which has resulted in increasing career opportunities for native Chinese speakers who are able to communicate effectively in English. The belief that English language proficiency is essential for career development and advancement is gaining increasing acceptance in China.

In addition, over 100,000 Chinese students traveled overseas each year to enroll in higher education programs since 2002, according to China Statistical Yearbook (2006). To gain admission into colleges, graduate schools and professional schools in the United States and many other countries, applicants typically must take admissions and assessment tests conducted in English, such as TOEFL, IELTS, GRE, GMAT, LSAT and SAT. English proficiency is also tested as a major subject for admission to colleges and graduate schools in China. As urban citizens in China are increasingly recognizing that higher education leads to greater rewards in terms of income and career opportunities, there is strong demand for test preparation courses for admissions and assessment tests required by higher educational institutions in China and abroad.

Public schools in China are generally required to use government-approved curricula. In contrast, private schools in China, while also heavily regulated, have greater flexibility to teach additional subjects and emphasize specific subjects, such as English language, to meet students needs, and to deliver education in a small-group setting. As a result, there is strong demand for high-quality private education and training among urban citizens in China.

Our Strengths, Strategies and Risks

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

- most recognized private education brand in China;
- leading market position in multiple high growth areas of education;
- extensive program, service and product offerings;
- unparalleled national scale and network;
- innovative and inspirational instruction;

- successful track record; and

- experienced management team with a passion for education.

Our goal is to strengthen our position as the largest provider of private educational services in China. We intend to leverage our brand and extensive national network to achieve our goal by pursuing the following growth strategies:

- establish new schools and learning centers;

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- increase student enrollments and course fees at our existing schools and learning centers;
- expand our program, service and product offerings;
- continue to leverage and expand our content distribution channels; and
- continue to strengthen existing, and pursue new, strategic relationships with educational content providers and other complementary businesses.

The successful execution of our strategies is subject to certain risks and uncertainties, including uncertainties regarding our ability to enhance and expand our program, service and product offerings in a timely manner in response to evolving student demands, expand our geographic reach, respond to competitive pressures and manage our growth effectively and efficiently while maintaining the consistency of our teaching quality and materials, as well as risks associated with excessive expenses that may be incurred in opening new schools and learning centers. See Risk Factors and Forward-Looking Statements for a discussion of these risks and uncertainties.

Our Corporate History and Structure

We commenced operations in China in 1993. We established a holding company on August 18, 2004 as a company formed under the laws of the British Virgin Islands, and our shareholders approved our change of corporate domicile to the Cayman Islands on January 25, 2006. We are currently 30.2% owned by Tigerstep Developments Limited, or Tigerstep, a company associated with Michael Minhong Yu, our founder, Chairman and Chief Executive Officer. On September 12, 2006, we completed our initial public offering, which involved our issuance and sale of 8,625,000 ADSs, representing 34,500,000 of our common shares, at an initial public offering price of $15.00 per ADS. Our ADSs representing our common shares are currently listed on the New York Stock Exchange.

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 education outside China. Our Cayman Islands holding company is not an educational institution and does not provide educational services. In addition, PRC laws and regulations prohibit foreign ownership of primary and middle schools for students in grades one to nine in China. Accordingly, we conduct our education business in China primarily through contractual arrangements among our subsidiaries in China and Beijing New Oriental Education & Technology (Group) Co., Ltd., or New Oriental China, and its subsidiaries. New Oriental China is our consolidated affiliated entity established in China. New Oriental China and its subsidiaries hold the licenses and permits necessary to conduct our education business in China and directly operate our schools, learning centers, bookstores and online education business. These contractual arrangements enable us to:

- exercise effective control over New Oriental China and its subsidiaries;
- receive a substantial portion of the economic benefits from New Oriental China and its 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 and all or part of the equity interests in its subsidiaries, as well as all or part of the assets of New Oriental China, in each case when and to the extent permitted by applicable PRC law.

See Corporate Structure Our Corporate Structure and Contractual Arrangements and Related Party Transactions Contractual Arrangements with New Oriental China and Its Subsidiaries and Shareholders for further information on our contractual arrangements with these parties.

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Our Offices

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) 6260-5566. Our registered office in the Cayman Islands is located at Codan Trust Company (Cayman) Limited, Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies, Cayman Islands. Our telephone number at this address is +(1) 345-949-1040. In addition, we have branch offices in 32 cities in China and one branch office in Vancouver, Canada.

Investors should submit any inquiries to the address and telephone number of our principal executive offices. Our principal websites are *www.neworiental.org*, *english.neworiental.org, www.koolearn.com* and *www.tol24.com*. The information contained on these websites and our other websites is not a part of this prospectus. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

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Conventions Which Apply to this Prospectus

Unless we indicate otherwise, all information in this prospectus assumes no exercise by the underwriters of their option to purchase up to 1,050,000 additional ADSs representing 4,200,000 common shares from certain selling shareholders.

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

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

- China or PRC refers to the People s Republic of China, excluding Taiwan, Hong Kong and Macau;

- New Oriental China refers to our consolidated affiliated entity in the PRC, Beijing New Oriental Education & Technology (Group) Co., Ltd., and its subsidiaries;

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

- references to the number of our learning centers include the number of our schools;

- shares or common shares refers to our common shares; preferred shares refers to our Series A convertible preferred shares, all of which were automatically converted into an equal number of common shares on September 12, 2006;

- ADSs refers to our American depositary shares, each of which represents four common shares, and ADRs refers to the American depositary receipts that evidence our ADSs; 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 U States.

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Glossary of Major Admissions and Assessment Tests

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

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THE OFFERING

The following information assumes that the underwriters will not exercise their option to purchase additional ADSs in the offering, unless otherwise indicated.

Offering price	US$ per ADS.
ADSs offered by New Oriental	598,399 ADSs.
ADSs offered by the selling shareholders	6,401,601 ADSs.
ADSs outstanding immediately after this offering	15,625,000 ADSs.
Common shares outstanding immediately after this offering	148,004,707 shares.
ADSs to common share ratio	Each ADS represents four common shares.
New York Stock Exchange symbol	Our ADSs are listed on the New York Stock Exchange under the symbol EDU. Our common shares are not listed on any exchange or quoted for trading on any over-the-counter trading system.
The ADSs	The ADSs will be evidenced by ADRs.

The depositary will hold the common shares underlying your ADSs. You will have rights as provided in the deposit agreement.

We do not expect to pay dividends in the near future. In the event that we declare dividends on our common shares, the depositary will pay you the cash dividends and other distributions it receives on our common shares, after deducting its fees and expenses.

You may turn in your ADSs to the depositary in exchange for common shares. The depositary will charge you fees for any exchange.

We may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs, you agree to be bound by the deposit agreement as amended.

	To better understand the terms of the ADSs, you should carefully read the Description of American Depositary Shares section of this prospectus. You should also read the deposit agreement, which is filed as an exhibit to the registration statement that includes this prospectus.
Depositary	Deutsche Bank Trust Company Americas.
Option to purchase additional ADSs	Certain selling shareholders have granted to the underwriters an option, which is exercisable within 30 days from the date of this prospectus, to purchase up to an additional 1,050,000 ADSs.

Timing and settlement for ADSs	The ADSs are expected to be delivered against payment on , 2007. The ADRs evidencing the ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York. DTC, and its direct and indirect participants, will maintain records that will show the beneficial interests in the ADSs and facilitate any transfer of the beneficial interests.
Use of proceeds	Our net proceeds from this offering are approximately US$ million. We plan to use the net proceeds we receive from this offering to further improve our financial strength and flexibility, fund working capital and for other general corporate purposes, which may include strategic acquisitions. We will not receive any of the proceeds from the sale of ADSs by the selling shareholders.
Lock-up	We and the selling shareholders have agreed with the underwriters to a lock-up of shares for a period of 60 days after the date of this prospectus. See Underwriting.
Risk factors	See Risk Factors and other information included in this prospectus for a discussion of risks you should carefully consider before investing in our ADSs.

The number of common shares that will be outstanding immediately after this offering:

- excludes 8,776,850 common shares issuable upon the exercise of options outstanding as of the date of this prospectus, at a weighted average exercise price of US$2.11 per share; and

- excludes common shares reserved for future issuances under our 2006 share incentive plan.

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SUMMARY CONDENSED CONSOLIDATED FINANCIAL DATA

The following summary condensed consolidated financial information has been derived from our consolidated financial statements. Our consolidated statements of operations for the years ended May 31, 2004, 2005 and 2006 and our consolidated balance sheet as of May 31, 2006 have been audited by Deloitte Touche Tohmatsu CPA Ltd., an independent registered public accounting firm. The report of Deloitte Touche Tohmatsu CPA Ltd. on those financial statements is included elsewhere in this prospectus. Our statements of operations for each of the six months ended November 30, 2005 and 2006 and balance sheet data as of November 30, 2006 have been derived from our unaudited interim condensed consolidated financial statements, which has been included elsewhere in this prospectus. You should read the summary condensed consolidated financial information for those periods and as of those dates in conjunction with those statements and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations. Our consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The unaudited interim financial statements reflect all adjustments which are, in the opinion of our management, necessary for a fair statement of the results for the interim periods presented.

(in thousands except for share, per share and per ADS data)	For the Years Ended May 31,				For the Six Months Ended November 30,		
	2004	**2005**	**2006**		**2005**	**2006**	
	RMB	**RMB**	**RMB**	**US$**	**RMB**	**RMB**	**US$**
Condensed Consolidated Statement of Operations Data:							
Net revenues	441,809	643,270	770,259	$ 98,322	454,065	598,362	76,380
Operating costs and expenses(1)	(396,090)	(532,173)	(706,100)	(90,133)	(368,768)	(417,927)	(53,344)
Operating income	45,719	111,097	64,159	8,189	85,297	180,435	23,036
Net income	52,389	141,974	49,385	6,303	73,520	173,276	22,113
Dividend in kind			(25,526)	(3,258)	(25,526)		
Income attributable to holders of common shares	52,389	141,974	23,859	3,045	47,994	173,276	22,113
Net income per share							
Basic	0.52	1.42	0.24	0.03	0.48	1.43	0.18
Diluted	0.52	1.35	0.21	0.03	0.43	1.33	0.17
Net income per ADS(2):							
Basic	2.08	5.68	0.96	0.12	1.92	5.72	0.73
Diluted	2.08	5.40	0.84	0.12	1.73	5.31	0.68
Shares used in calculating basic and diluted net income per common share:							
Basic	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	121,185,489	121,185,489
Diluted	100,000,000	104,840,183	111,111,111	111,111,111	111,111,111	130,565,761	130,565,761
Dividends declared per share(3)	0.27	0.65	0.59	0.08			

(1) Include share-based compensation expenses as follows:

(in thousands)	For the Years Ended May 31,				For the Six Months Ended November 30,		
	2004	**2005**	**2006**		**2005**	**2006**	
	RMB	**RMB**	**RMB**	**US$**	**RMB**	**RMB**	**US$**
Share-based compensation expenses	16,817		64,457	$ 8,228	26,225	13,714	1,751

(2) Each ADS represents four common shares.

(3) We declared an annual dividend of RMB0.27 and RMB0.65 per share, respectively, to holders of our common shares in our fiscal years ended May 31, 2004 and 2005. We declared an annual dividend of RMB0.59 per share to holders of our common shares and preferred shares in our fiscal year ended May 31, 2006.

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The following table presents a summary of our condensed consolidated balance sheet data as of May 31 and November 30, 2006:

(in thousands)	As of May 31, 2006		As of November 30, 2006	
	RMB	US$	RMB	US$
Condensed Consolidated Balance Sheet Data:				
Cash and cash equivalents	261,854	$ 33,425	1,166,510	148,766
Total assets	1,089,562	139,079	2,001,234	255,322
Total current liabilities	465,218	59,385	359,701	45,915
Total liabilities	568,056	72,513	361,724	46,173
Long-term debt, less current portion	102,638	13,102		
Series A convertible preferred shares	920	117		
Total shareholders equity	521,506	66,566	1,639,510	209,149

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RISK FACTORS

You should consider carefully all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our ADSs. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ADSs could decline, and you may lose all or part of your investment.

Risks Related to Our Business

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

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

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

Our teachers are critical to maintaining the quality of our programs, services and products and maintaining our brand and reputation, as they interact with our students on a daily basis. We must continue to attract qualified teachers who have a strong command of the subject areas to be taught and meet our qualification. We also seek to hire teachers who are capable of delivering innovative and inspirational instruction. There are a limited number of teachers in China with the necessary experience and language proficiency to teach our courses and we must provide competitive compensation packages to attract and retain qualified teachers. In addition, criteria such as commitment and dedication are difficult to ascertain during the recruitment process, in particular as we continue to expand and add teachers at a faster pace to meet rising student enrollments. We must also provide continuous training to our teachers so that they can stay abreast of changes in student demands, admissions and assessment tests, admissions standards and other key trends necessary to effectively teach their respective courses. We may not be able to hire, train and retain enough qualified teachers to keep pace with our anticipated growth while maintaining consistent teaching quality across many different schools, learning centers and programs in different geographic locations. Shortages of qualified teachers or decreases in the quality of our instruction, whether actual or perceived in one or more of our markets, may have a material and adverse effect on our business.

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

We believe that market awareness of our New Oriental brand has contributed significantly to the success of our business. We also believe that maintaining and enhancing the New Oriental brand is critical to maintaining our competitive advantage. We offer a diverse set of programs, services and products to primary and middle school students, college students and other adults throughout many provinces and cities in China. As we continue to grow in size, expand our programs, services and products and extend our geographic reach, maintaining quality and consistency may be more difficult to achieve.

We have developed our student base primarily by word-of-mouth referrals and have incurred limited brand promotion expenses to date. We have initiated brand promotion efforts in recent years, but we cannot assure you

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that our new marketing efforts will be successful in further 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.

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

We have increased the number of our schools in China from three in 2001 to 34 by the end of November 2006, and increased the number of our learning centers in China from 23 in 2001 to 121 by the end of November 2006. We plan to continue to expand our operations in different geographic locations in China. This expansion has resulted, and will continue to result, in substantial demands on our management, faculty, operational, technological and other resources. Our planned expansion will also place significant demands on us to maintain the consistency of our teaching quality and our culture to ensure that our brand does not suffer as a result of any decreases, whether actual or perceived, in our teaching quality. To manage and support our growth, we must improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain additional qualified teachers and management personnel as well as other administrative and sales and marketing personnel, particularly as we expand into new markets. We cannot assure you that we will be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified teachers and management personnel and integrate new schools and learning centers into our operations. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse impact on our financial condition and results of operations.

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

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

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 for intellectual property rights infringement, defamation, negligence or other legal

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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 s 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 s and GMAC s prior permission was not a reasonable use of the test materials under the PRC Copyright Law, and that we, therefore, had infringed upon ETS s 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. We have also been involved in other claims and legal proceedings against us relating to infringement of third parties copyrights in materials distributed by us and the unauthorized use of a third party s name in connection with the marketing and promotion of one of our programs.

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 addition, certain types of our teaching or marketing materials have subjected us to claims of intellectual property rights infringement by third parties in the past and may subject us to further claims in the future, particularly in light of the uncertainties in the interpretation and application of PRC 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 a decade 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

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damage our reputation and brand. In addition, we have spent significant time and expense developing or licensing and localizing the content of certain educational materials, such as books, software, CD-ROMs, magazines and other periodicals, to enrich our product offerings and meet students needs. The measures we take to protect our trademarks, copyrights and other intellectual property rights, which presently are based upon a combination of trademark, copyright and trade secret laws, may not be adequate to prevent unauthorized use by third parties. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could involve substantial risks to us. If we are unable to adequately protect our trademarks, copyrights and other intellectual property rights, we may lose these rights, our brand name may be harmed, and our business may suffer materially.

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

The private education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We face competition in each major program we offer and each geographic market in which we operate. For example, we face nationwide competition for our IELTS preparation courses from Global IELTS School, which offers IELTS preparation courses in many cities in China. We face regional competition for our English for children program from several competitors that focus on children s English training in specific regions, including English First. We face competition for our Elite English program primarily from Wall Street Institute and EF English First, both of which offer English training courses for adults in many cities in China. Wall Street Institute began providing high-end English training courses to adults in major cities several years before we entered this market and enjoys a first-mover advantage. We also face competition from companies that focus on providing international and/or PRC test preparation courses in specific geographic markets in China.

Our student enrollments may decrease due to intense competition. Some of our competitors may have more resources than we do. These competitors may be able to devote greater resources than we can to the development, promotion and sale of their programs, services and products and respond more quickly than we can to changes in student needs, testing materials, admissions standards, market needs or new technologies. In addition, we face competition from many different smaller sized organizations that focus on some of our targeted markets, which may be able to respond more promptly to changes in student preferences in these markets. In addition, the increasing use of the Internet and advances in Internet- and computer-related technologies, such as web video conferencing and online testing simulators, are eliminating geographic and cost-entry barriers to providing private educational services. As a result, many of our international competitors that offer online test preparation and language training courses, such as The Princeton Review, Inc. and Kaplan, Inc. may be able to more effectively penetrate the China market. Many of these international competitors have strong education brands, and students and parents in China may be attracted to the offerings of international competitors based in the country that the student wishes to study in or in which the selected language is widely spoken. In addition, many smaller companies are able to use the Internet to quickly and cost-effectively offer their programs, services and products to a large number of students with less capital expenditure than previously required. In addition, we may be required to reduce course fees or increase spending in response to competition in order to retain or attract students or pursue new market opportunities. As a result, our revenues and profitability may decrease. We cannot assure you that we will be able to compete successfully against current or future competitors. If we are unable to maintain our competitive position or otherwise respond to competitive pressures effectively, we may lose our market share and our profitability may be adversely affected.

Failure to adequately and promptly respond to changes in testing materials, admissions standards and technologies could cause our programs, services and products to be less attractive to students.

Admissions and assessment tests undergo continuous change, in terms of the focus of the subjects and questions tested, the format of the tests and the manner in which the tests are administered. For example, certain

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admissions and assessment tests in the United States recently added an essay component, which required us to hire and train our teachers to be able to analyze written essays that tend to be more subjective in nature and require a higher level of English proficiency. In addition, some admissions and assessment tests are increasingly being offered in a computer-based testing format. These changes require us to continually update and enhance our test preparation materials and our teaching methods. Any inability to track and respond to these changes in a timely and cost-effective manner would make our programs, services and products less attractive to students, which may materially and adversely affect our reputation and ability to continue to attract students without a significant decrease in course fees.

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

In the fiscal year ended May 31, 2006 and in the six months ended November 30, 2006, we derived a significant portion of our revenues from test preparation courses. The success of our test preparation courses depends on the continued use of admissions and assessment tests. If the use of admissions and assessment tests declines or falls out of favor with educational institutions and government authorities, the markets for our online and classroom-based test preparation courses will deteriorate and our business will be materially and adversely affected. We provide preparation courses for both overseas and domestic admissions and assessment tests. In China, local government authorities reliance on admissions and assessment tests varies from location to location and has changed from time to time. For example, in early 2005, the PRC Ministry of Education started reforming the CET 4 and CET 6 exams, which, among other things, will limit these exams only to college students starting from 2007. As a result, the total number of students who started our CET 4 and CET 6 exam preparation courses decreased from approximately 180,000 in 2004 to approximately 140,000 in 2005, and we have experienced a slight decline in the number of students who started our CET 4 and CET 6 exam preparation courses in 2006 as compared to 2005. In the United States, a recent proposal by the president of the University of California to make the SAT optional for admission to the University of California system has provoked further debate in the United States about the utility and fairness of the SAT. There has been a continuing debate in the United States regarding the usefulness of admissions and assessment tests to assess qualifications and many people have criticized the use of admissions and assessment tests as unfairly discriminating against certain test takers. In addition, in March 2006, the College Board in the United States revealed that, because of technical problems in scanning answer sheets, the scores of several thousand students taking the SAT were inaccurately reported, causing additional concerns regarding the accuracy and quality of admissions and assessment tests. If a large number of educational institutions abandon the use of existing admissions and assessment tests as a requirement for admission without replacing them, with other admissions and assessment tests, we may experience a decrease in demand for our test preparation courses and our business may be seriously harmed.

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

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

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

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenues and results of operations, primary due to seasonal changes in student enrollments. Historically, our courses tend to

have the largest student enrollments in our first fiscal quarter from June 1 to August 31 each year. Our expenses, however, vary significantly and do not necessarily correspond with changes in our student enrollments and revenues. We make investments in marketing and promotion, teacher recruitment and training, and product development throughout the year. We expect quarterly fluctuations in our revenues and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our ADSs. As our revenues grow, these seasonal fluctuations may become more pronounced.

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

Our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the price of our ADSs to decline. In addition to the seasonal 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:

- our ability to increase student enrollments and course fees;
- general economic conditions and regulations or actions pertaining to the provision of private educational services in China;
- changes in consumers spending patterns;
- our ability to control cost of revenues and operating expenses; and
- non-recurring charges incurred in connection with acquisitions or other extraordinary transactions or unexpected circumstances.

Due to these factors, among others, we believe that quarter-to-quarter comparisons of our operating results may not be indicative of our future performance and you should not rely on them to predict the future performance of our ADSs. In addition, our past results may not be indicative of future performance because of our new businesses.

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

Historically, our core businesses have been English language training for adults and test preparation courses for college and graduate students. New Oriental China established a private primary and secondary school in Yangzhou in 2002. We established our Pop Kids English program in 2004 for children in kindergarten through grade six and began offering high-end Elite English program to adults and children in 2003. In addition, our online education programs were launched in 2000. Some of these operations have not generated significant or any profit to date and we have less experience responding quickly to changes, competing successfully and maintaining and expanding our brand in these areas without jeopardizing our brand in other areas. Consequently, there is limited operating history on which you can base your evaluation of the business and prospects of these relatively more recent operations.

Our success depends on the continuing efforts of our senior management team and other key personnel and our business may be harmed if we lose their services.

Our future success depends heavily upon the continuing services of the members of our senior management team, in particular, our founder, chairman and chief executive officer, Michael Minhong Yu, 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 or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Competition for experienced management personnel in the private education sector is intense, the pool of qualified candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose teachers, students, key professionals and staff members. Each of our executive officers and key employees has entered into a confidentiality and non-competition agreement with us. If any disputes arise between any of our senior executives or key personnel and us, it may be difficult to enforce these agreements against these individuals.

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

We currently generate a majority of our revenues in Beijing, Shanghai, Wuhan and Guangzhou. We derived approximately two-thirds of our total net revenues for the fiscal year ended May 31, 2006 and for the six months ended November 30, 2006 from these four cities 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 outbreak of contagious disease, or if any of these cities adopts regulations relating to private education that place additional restrictions or burdens on us, our overall business and results of operations may be materially and adversely affected.

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

Rapid growth in the use of the Internet is a recent occurrence, and the market for Internet-based programs, services and products is characterized by rapid technological changes and innovation, unpredictable product life cycles and user preferences. We have limited experience with generating revenues from online programs, services and products and their results are largely uncertain. The increasing adoption of computer-based testing formats for admissions testing may lead more students to seek online test preparation courses. We must quickly modify our programs, services and products to adapt to changing student needs and preferences, technological advances and evolving Internet practices. Ongoing enhancement of our online offerings and related technology may entail significant expense and technical risk. We may use new technologies ineffectively or fail to adapt our online products or services and related technology on a timely and cost-effective basis. If our improvements to our online offerings and the related technology are delayed, result in systems interruptions or are not aligned with market expectations or preferences, we may lose market share and our business could be adversely affected.

If we fail to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or prevent fraud.

As a public company, we are subjected to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company s internal controls over financial reporting in its annual report, which contains management s assessment of the effectiveness of the company s internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of the company s internal controls over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending on May 31, 2008. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting is effective, our independent registered public accounting firm may still decline to attest to our management s assessment or may issue a report that is qualified if it is not

satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. Our reporting obligations as a public company place a significant strain on our management, operational and financial resources and systems for the foreseeable future.

Prior to our initial public offering in September 2006, we had been a private company with limited accounting personnel and other resources with which to address our internal controls and procedures. As a result, during fiscal years ended May 31, 2004 and 2005, our independent registered public accounting firm identified a number of control deficiencies, as defined in the Public Company Accounting Oversight Board s Audit Standard No. 2. The control deficiencies identified by our independent auditors include (i) the lack of sufficient financial reporting and accounting personnel to fulfill the post-offering U.S. GAAP reporting requirements; (ii) the lack of a centralized comprehensive accounting policies and procedures manual prepared in accordance with U.S. GAAP to guide the day-to-day operations of accounting and finance personnel; and (iii) the lack of systematic monthly closing procedures. We have implemented the following measures to remediate the deficiencies: (i) hiring and training of qualified financial reporting and accounting personnel with experience in U.S. GAAP reporting; (ii) developing a comprehensive accounting policies and procedures manual to guide the day-to-day operations of our accounting and finance personnel; (iii) rolling out a new computerized enrollment system to timely track course enrollment and other relevant operating data across our school network; and (iv) strengthening our internal audit team to monitor the implementation of our policies and procedures. We will continue to implement measures to remedy these control deficiencies in time to meet the deadline imposed by Section 404 of the Sarbanes-Oxley Act. If we fail to timely achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls over financial reporting. Moreover, effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act.

We do not have any liability or business disruption insurance, 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 learning centers and other facilities, including indoor facilities where we organize certain summer camps 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 any liability insurance or business disruption insurance. 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.

Capacity constraints or system disruptions to our computer systems or websites could damage our reputation and limit our ability to retain students and increase student enrollments.

The performance and reliability of our online program infrastructure is critical to our reputation and ability to retain students and increase student enrollments. Any system error or failure, or a sudden and significant increase in traffic, could result in the difficulty of accessing our websites by our students or unavailability of our online programs. We cannot assure you that we will be able to expand our online program infrastructure on a timely basis sufficient to meet demand for such programs. Our computer systems and operations could be vulnerable to interruption or malfunction due to events beyond our control, including natural disasters and

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telecommunications failures. Any interruption to our computer systems or operations could have a material adverse effect on our ability to retain students and increase student enrollments.

Our computer networks may be vulnerable to security risks that could disrupt operations and require us to expend significant resources.

Our computer networks may be vulnerable to unauthorized access, computer hackers, computer viruses and other security problems. A user who circumvents security measures could misappropriate proprietary information or cause interruptions or malfunctions in operations. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.

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

Our business could be materially and adversely affected by the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, or another epidemic. In 2005 and 2006, there have been reports on the occurrences of avian influenza in various parts of China, including a few confirmed human cases and deaths. Any prolonged recurrence of avian influenza, SARS or other adverse public health developments in China may have a material and adverse effect on our business operations. These could require the temporary closure of our schools, learning centers and bookstores. Such closures could severely disrupt our business operations and adversely affect our results of operations.

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

Terrorist attacks, geopolitical uncertainty and international conflicts involving the U.S. and elsewhere, such as those that took place on September 11, 2001, could have an adverse effect on our overseas test preparation courses and English language training courses. Such attacks may discourage students from studying in the United States and elsewhere outside of China and may also make it more difficult for Chinese students to obtain visas to study abroad. These factors could cause declines in the student enrollments for our test preparation and English language training courses and could have an adverse effect on our overall business and results of operations.

We incur increased costs as a result of being a public company.

As a public company, we incur significant accounting, legal and other expenses that we did not incur when we were a private company prior to our initial public offering in September 2006. The Sarbanes-Oxley Act, as well as new rules subsequently implemented by the SEC and the New York Stock Exchange, have detailed requirements concerning corporate governance practices of public companies including Section 404 relating to internal controls over financial reporting. These new rules and regulations increase our accounting, legal and financial compliance costs and make certain corporate activities more time-consuming and costly. In addition, we incur additional costs associated with our public company reporting requirements.

Risks Related to Our Corporate Structure

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

PRC laws and regulations currently require any foreign entity that invests in the education business in China to be an educational institution with relevant experience in providing educational services outside China. Our Cayman Islands holding company is not an educational institution and does not provide educational services. In

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addition, foreign ownership of primary and middle schools for students in grades one to nine is prohibited in the PRC. Accordingly, our wholly owned subsidiaries in China, which are considered foreign-invested, are currently ineligible to apply for the required education licenses and permits in China. We conduct our education business in China through contractual arrangements with New Oriental China and its subsidiaries and shareholders. New Oriental China is our consolidated affiliated entity directly owned by our founders and/or their respective affiliates. New Oriental China s subsidiaries hold the requisite licenses and permits necessary to conduct our education business and operate our schools, learning centers and bookstores in China. We have been and are expected to continue to be dependent on New Oriental China and its subsidiaries to operate our education business until we qualify for direct ownership of educational businesses in China. We have entered into contractual arrangements with New Oriental China and its subsidiaries, pursuant to which we, through our wholly owned subsidiaries in China, provide exclusive teaching support, new enrollment system support and other services to New Oriental China and its subsidiaries in exchange for payments from them. In addition, we have entered into agreements with New Oriental China and each of the shareholders of New Oriental China, which provide us with a substantial ability to control New Oriental China and its existing and future subsidiaries.

If we, any of our wholly owned subsidiaries, New Oriental China or any of its existing and future subsidiaries are found to be in violation of any existing or future PRC laws or regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities including the Ministry of Education, or MOE, which regulates the education industry, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries and affiliated entities;
- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiaries and affiliated entities;
- imposing fines or other requirements with which we or our PRC subsidiaries and affiliated entities may not be able to comply;
- requiring us or our PRC subsidiaries and affiliated entities to restructure the relevant ownership structure or operations; or
- restricting or prohibiting our use of the proceeds of this offering to finance our business and operations in China.

The imposition of any of these penalties could result in a material and adverse effect on our ability to conduct our business.

We rely on contractual arrangements with New Oriental China and its subsidiaries and shareholders for our China operations, which may not be as effective in providing operational control as direct ownership.

We have relied and expect to continue to rely on contractual arrangements with New Oriental China and its subsidiaries and shareholders to operate our education business. For a description of these contractual arrangements, see Corporate Structure Our Corporate Structure and Contractual Arrangements and Related Party Transactions Contractual Arrangements with New Oriental China and Its Subsidiaries and Shareholders. These contractual arrangements may not be as effective in providing us with control over New Oriental China and its subsidiaries as direct ownership. If we had direct ownership of New Oriental China and its subsidiaries, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of New Oriental China and its subsidiaries, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, as a legal matter, if New Oriental China or any of its subsidiaries and shareholders fails to perform its or his respective obligations under these contractual arrangements, we may have to incur substantial costs and resources to enforce such arrangements, and rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which may not be effective. For example, if the shareholders of New Oriental

China were to refuse to transfer their equity interest in New Oriental China to us or our designee when we

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exercise the call option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal action to compel them to fulfill their contractual obligations. In addition, we may not be able to renew these contracts with New Oriental China and/or its subsidiaries and shareholders if the beneficial owners of New Oriental China do not act in the best interests of our company when conflicts of interest arise between their dual roles as beneficial owners and directors of both New Oriental China and our company. See The beneficial owners of New Oriental China may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Many of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our affiliated entities, and our ability to conduct our business may be negatively affected.

The beneficial owners of New Oriental China may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

The beneficial owners of New Oriental China are also the founders and beneficial owners of our company. Some of them are directors of both New Oriental China and our company. Conflicts of interests between their dual roles as beneficial owners and directors of both New Oriental China and our company may arise. 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 that conflicts of interests will be resolved in our favor. In addition, these individuals may breach or cause New Oriental China and its subsidiaries to breach or refuse to renew the existing contractual arrangements that allow us to effectively control New Oriental China and its subsidiaries, and receive economic benefits from them. Currently, we do not have existing arrangements to address potential conflicts of interest between these individuals and our company. We rely on these individuals to abide by the laws of the Cayman Islands and China, both of which provide that directors owe a fiduciary duty to the company, which requires them to act in good faith and in the best interests of the company and not to use their positions for personal gain. If we cannot resolve any conflicts of interest or disputes between us and the beneficial owners of New Oriental China, we would have to rely on legal proceedings, which could result in disruption of our business and substantial uncertainty as to the outcome of any such legal proceedings.

New Oriental China and its subsidiaries may be subject to significant limitations on their ability to operate private schools or make payments to related parties or otherwise be materially and adversely affected by changes in PRC laws and regulations.

The principal regulations governing private education in China are The Law for Promoting Private Education (2003) and The Implementation Rules for the Law for Promoting Private Education (2004). Under these regulations, a private school may elect to be a school that does not require reasonable returns or a school that requires reasonable returns. At the end of each fiscal year, every private school is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of annual net income of the school, while in the case of a private school that does not require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any. A private school that requires reasonable returns must publicly disclose such election and additional information required under the regulations. A private school shall consider factors such as the school s tuition, ratio of the funds used for education-related activities to the course fees collected, admission standards and educational quality when determining the percentage of the school s net income that would be distributed to the investors as reasonable returns. However, none of the current PRC laws and regulations provides a formula or guidelines for determining reasonable returns. In addition, none of the current PRC laws

and regulations sets forth different requirements or restrictions on a private school s ability to operate its education business based on such school s status as a school that requires reasonable returns or a school that does not require reasonable returns.

With regard to income tax, according to the Implementation Rules for The Law for Promoting Private Education (2004), private schools that do not require reasonable returns are entitled to the same preferential tax treatment as public schools, while preferential tax treatment policies applicable to private schools requiring reasonable returns are separately formulated by the relevant authorities under the State Council. To date, however, no separate regulations or policies have been promulgated by the relevant authorities in this regard. As a result, our schools are subject to the specific requirements of their respective local tax authorities, which vary from location to location. In some cities, our schools are registered as schools that require reasonable returns, while in other cities, our schools are registered as schools that do not require reasonable returns. The current PRC laws and regulations governing private education may be amended or replaced by new laws and regulations that (i) impose significant limitations on the ability of our schools to operate their business, charge course fees or make payments to related parties for services received, (ii) specify the formula for calculating reasonable returns, or (iii) change the preferential tax treatment policies applicable to private schools. We cannot predict the timing and effects of any such amendments or new laws and regulations. Changes in PRC laws and regulations governing private education or otherwise affecting New Oriental China s and its subsidiaries operations could materially and adversely affect our business prospects and results of operations.

The discontinuation of any preferential tax treatments currently available to us could result in a decrease of our net income and materially and adversely affect our results of operations.

According to The Implementation Rules for the Law for Promoting Private Education (2004), private schools that do not require reasonable returns enjoy the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools requiring reasonable returns shall be separately formulated by the relevant authorities under the State Council. To date, however, no separate regulations or policies have been promulgated by the relevant authorities in this regard. In practice, tax treatments for private schools vary across different cities in China. In some cities, private schools are subject to a 33% standard enterprise income tax, while in other cities, private schools are subject to a 2.0% to 3.5% tax on gross receipts in lieu of the 33% standard enterprise income tax or may be exempted from enterprise income tax. In addition, some of our PRC subsidiaries and other affiliated entities currently also enjoy certain preferential tax treatment. Preferential tax treatments granted to us by local 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 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.

In addition, under PRC laws and regulations, an enterprise that is registered in a high-tech zone and also qualifies as new or high-technology enterprise may enjoy preferential tax benefits. Each of our wholly owned subsidiaries in China and New Oriental China is a certified new or high-technology enterprise newly established in a high-tech zone in Beijing, and is entitled to a three-year exemption from enterprise income tax beginning from its first year of operation, a 7.5% enterprise income tax rate for another three years followed by a 15% tax rate so long as it continues to qualify as a new or high-technology enterprise. If PRC laws and regulations were to phase out preferential tax benefits currently granted to new or high-technology enterprises, our wholly owned subsidiaries in China and New Oriental China would be subject to the standard enterprise income tax rate, which currently is 33%. Loss of these preferential tax treatments could have a material and adverse effect on our financial condition and results of operations.

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Contractual arrangements we have entered into among our subsidiaries and New Oriental China and its subsidiaries may be subject to scrutiny by the PRC tax authorities and a finding that we or New Oriental China and its subsidiaries owe additional taxes could substantially reduce our consolidated net income and the value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our wholly owned subsidiaries in China and New Oriental China and its subsidiaries do not represent an arm s-length price and adjust New Oriental China or any of its subsidiaries income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction, for PRC tax purposes, of expense deductions recorded by New Oriental China or any of its subsidiaries, which could in turn increase its tax liabilities. In addition, the PRC tax authorities may impose late payment fees and other penalties to our affiliated entities for under-paid taxes. Our consolidated net income may be materially and adversely affected if our affiliated entities tax liabilities increase or if they are found to be subject to late payment fees or other penalties.

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

PRC laws and regulations currently prohibit foreign ownership of primary and middle schools for students in grades one to nine in China. New Oriental China controls and operates two private primary and secondary schools, one in Yangzhou and one in Taixing, which may enter into contractual arrangements with our wholly owned subsidiaries in China in the future to pay teaching support and other fees to our subsidiaries in exchange for their services. As the provision of private primary and middle school services is a heavily regulated industry in China, the Yangzhou school and the Taixing school and any new primary schools that New Oriental China or any of its subsidiaries establishes in the future may be subject from time to time to investigations, claims of non-compliance or lawsuits by governmental agencies, which may allege statutory violations, regulatory infractions or other causes of action. If the results of the investigations are unfavorable to us, we may be subject to fines, penalties, injunctions or other censure that could have an adverse impact on our results of operations. Even if we adequately address the issues raised by a government investigation, we may have to devote significant financial and management resources to resolve these issues, which could harm our business.

We rely principally on dividends and other distributions on equity paid by our wholly owned subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our subsidiaries and affiliated entities 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 rely principally on dividends from our wholly owned subsidiaries in China and service, license and other fees paid to our wholly owned subsidiaries by New Oriental China and its subsidiaries for our cash requirements, including any debt we may incur. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries and affiliated entities (other than our schools) in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve until such reserve reaches 50% of its registered capital, and each of our subsidiaries is required to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of the board. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries and affiliated entities 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,

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at the end of each fiscal year, every private school in China is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of a private school that does not require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any. See New Oriental China and its subsidiaries may be subject to significant limitations on their ability to operate private schools or make payments to related parties or otherwise be materially and adversely affected by changes in PRC laws and regulations. Any limitation on the ability of our subsidiaries and affiliated entities to distribute dividends or other 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 and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC operating subsidiaries and affiliated entities, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the proceeds of this offering in the manner described in Use of Proceeds, as an offshore holding company of our PRC operating subsidiaries and affiliated entities, we may make loans to our PRC subsidiaries and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries or consolidated PRC affiliated entities are subject to PRC regulations and approvals. 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 counterpart; and

- loans by us to New Oriental China or its subsidiaries, which are domestic PRC entities, must be approved by the relevant government authorities and must also be registered with SAFE or its local counterpart.

We may also decide to finance our wholly owned subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. Because New Oriental China and its subsidiaries are domestic PRC entities, we are not likely to finance their activities by means of capital contributions due to regulatory issues relating to foreign investment in domestic PRC entities, as well as the licensing and other regulatory issues discussed in the Regulations section of this prospectus. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or New Oriental China or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

The regulation of Internet website operators is relatively new and subject to interpretation, and our operation of online education programs could be adversely affected if we are deemed to have violated applicable laws and regulations.

Beijing New Oriental Xuncheng Network Technology Co., Ltd., or Xuncheng Network, a subsidiary of New Oriental China, engages in online education services through the Internet. The interpretation and application of existing Chinese laws and regulations, the stated positions of the main governing authority, the Ministry of Information Industry, or MII, and the possibility of adopting new laws or regulations have created significant uncertainties regarding the legality of the businesses and activities of Chinese companies with Internet operations. In particular, according to the Internet Information Services Administrative Measures promulgated by

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the State Council on September 25, 2000, the activities of Internet content providers are regulated by various Chinese government authorities including, the Ministry of Education, the State Administration of Radio, Film and Television, the General Administration of Press and Publication, or GAPP, and the Ministry of Culture, or MOC, depending on the specific activities conducted by the Internet content provider. In addition, MII recently posted a notice on its website entitled Notice on Strengthening Management of Foreign Investment in Operating Value-Added Telecom Services. The notice prohibits PRC Internet content providers from leasing, transferring or selling their ICP licenses or providing facilities or other resources to any illegal foreign investors. The notice states that PRC Internet content providers should directly own the trademarks and domain names for websites operated by them, as well as servers and other infrastructure used to support these websites. The notice also states that PRC Internet content providers have until November 1, 2006 to evaluate their compliance with the notice and correct any non-compliance. A PRC Internet content provider s failure to do so by November 1, 2006 may result in revocation of its ICP license. Xuncheng Network holds an ICP License issued by the Beijing branch of the MII. Xuncheng Network directly owns its domain names as well as servers and other infrastructure used to support our websites operating under these domain names. We are in the process of transferring relevant trademarks from our wholly owned subsidiaries in China to Xuncheng Network and we believe such transfer will be only a matter of timing and formality. Due to the uncertainties of interpretation and implementation of relevant regulations by different authorities, we cannot assure you that the licenses held by Xuncheng Network will be deemed to be adequate for all its online services. Failure to comply with applicable Chinese Internet regulations could subject us to severe penalties, including fines and/or other restrictions imposed upon us, or even orders of cessation of Xuncheng s operation.

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

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

Some of our affiliated companies previously engaged in activities without necessary approvals. This could subject those companies to fines and other penalties, which could have a material adverse effect on our business.

Some of our affiliated companies historically engaged in business activities that were not within the authorized scope of their respective licenses and without requisite approvals. For example, Xuncheng Network had engaged in online sales of publications without all necessary licenses and permits. Each of these companies subsequently ceased the unauthorized activities or included these activities into the business scope of their respective business licenses. While all these companies currently operate within their authorized scope of business or are in the process of obtaining relevant licenses, the relevant PRC authorities have the authority to impose fines or other penalties for their violations. In rare instances, these authorities may require disgorgement of profits or revoke business license, but as a matter of practice, the authorities are likely to impose such an extreme penalty only after repeated warnings are ignored or where a violation is blatant and continuous. Due to the discretionary nature of regulatory enforcements in the PRC, we cannot assure you that these companies will not be subject to such type of penalties for their past violations, or that such type of penalties will not have a material adverse effect on our business.

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Risks Related to Doing Business in China

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

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China s economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s 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 is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Since late 2003, the PRC government implemented a number of measures, such as raising interest rates and bank reserve requirements to place additional limitations on the ability of commercial banks to make loans, in order to contain the growth of specific segments of China s economy that it believed to be overheating. These actions, as well as future actions and policies of the PRC government, could materially affect our liquidity and access to capital and our ability to operate our business.

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

We conduct our business primarily through our subsidiaries and affiliated entities in China. 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.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

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

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, all of our senior executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

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

The PRC government imposes controls on the convertibility of the RMB into 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 is 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 our affiliated entity to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade- related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

Recent 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 public notice in October 2005, or the SAFE notice, requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an offshore special purpose company. PRC residents that are shareholders of offshore special purpose companies established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. Our current beneficial owners who are PRC residents have registered with the local SAFE branch as required under the SAFE notice. The failure of these beneficial owners to timely amend their SAFE registrations pursuant to the SAFE notice or the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in the SAFE notice may subject such beneficial owners to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries ability to distribute dividends to our company or otherwise adversely affect our business.

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

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 6.5% appreciation of the RMB against the U.S. dollar between July 21, 2005 and January 26, 2007. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. Our revenues and costs are mostly denominated in the RMB, and a significant portion of our financial assets are also denominated in RMB. We rely entirely on dividends and other fees paid to us by our subsidiaries and affiliated entities in China. Any significant revaluation of the RMB may materially and adversely affect our

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cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, a further appreciation of the RMB against the U.S. dollar would make any new RMB-denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into the RMB for such purposes. An appreciation of the RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into the RMB, as the RMB is our reporting currency.

If any of our PRC subsidiaries, affiliated entities and their subsidiaries becomes the subject of a bankruptcy or liquidation proceeding, we may lose the ability to use and enjoy those assets, which could reduce the size of our operations and materially and adversely affect our business, ability to generate revenue and the market price of our ADSs.

To comply with PRC laws and regulations relating to foreign ownership restrictions in the education business, we currently conduct our operations in China through contractual arrangements with New Oriental China, its shareholders and subsidiaries. As part of these arrangements, New Oriental China and its subsidiaries hold some of the assets that are important to the operation of our business. If any of these entities goes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of New Oriental China and its subsidiaries undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, our ability to generate revenue and the market price of our ADSs.

Risks Related to Our ADSs and This Offering

The market price for our ADSs may be volatile.

The market price for our ADSs may be volatile and subject to wide fluctuations in response to factors such as actual or anticipated fluctuations in our quarterly operating results, changes in financial estimates by securities research analysts, changes in the economic performance or market valuations of other education companies, announcements by us or our competitions of material acquisitions, strategic partnerships, joint ventures or capital commitments, fluctuations of exchange rates between RMB and the U.S. dollar, intellectual property litigation, release of lock-up or other transfer restrictions on our outstanding shares or ADSs, and economic or political conditions in China. In addition, the performance, and fluctuation in market prices, of other companies with business operations located mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes of our ADSs. Furthermore, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ADSs.

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

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the net proceeds from our initial public offering in September 2006 and from this offering will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. The amount and timing of such additional financing needs will vary principally depending on the timing of new school and learning center openings, investments and/or acquisitions,